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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Third Quarter 2020 Earnings Conference Call. I would now like to turn the call over to George Grofik, Senior Vice President, Head of Investor Relations and Communications. Please go ahead, sir.

George Grofik

Thank you, Shannon, and good morning, good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's third quarter results. You can find the 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 contain forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. I refer you to our S-1 prospectus on file with the SEC for a description of these risk factors.

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

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

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

Thank you, George, and welcome to everyone on the call. And we will also like to express our deep appreciation today to the first responders, doctors, nurses who are keeping us healthy and safe as well as those who have served and will continue to serve in the country's health services and their families.

Slide 6. I'm delighted to report that Royalty Pharma continued its strong business momentum in the third quarter. On our second quarter earnings call in August, I described 2020 as a landmark year for the company. Not only does this remain the case. For reasons we will discuss during the course of this presentation, we believe we have further strengthened our prospects.

In terms of our third quarter financial results, we continue to deliver a strong performance with double-digit growth in adjusted cash receipts and adjusted cash flow, our top and bottom lines. We also substantially improved our balance sheet through our initial $6 billion bond offering. This not only lowered our weighted average cost of debt, but doubled our average debt maturity as we achieved some of the best borrowing terms in the entire biopharma industry. Meanwhile, we continue to expand our portfolio through new Royalty acquisitions, taking our total for the year-to-date announced transactions to $2.3 billion.

I'm particularly excited by the recent expansion of our agreement with the Cystic Fibrosis Foundation, which is a great example of how we can deliver win-win solutions based on our long-standing relationships and our unique capabilities.

Lastly, we conducted a successful secondary offering of approximately 3% of our shared capital ahead of the December expiration of the IPO lockup. This offering has improved the overall liquidity of our stock.

Slide 7. As I mentioned upfront, we're continuing to deliver strong financial performance. We maintained double-digit momentum with 12% growth in third quarter adjusted cash receipts and 27% growth in adjusted cash flow. The pace of our growth really speaks to our unique position within the biopharma ecosystem coupled with the extraordinary innovation currently taking place in the industry.

With that, I will hand it over to Jim to update you on our Royalty portfolio.

Jim Reddoch - Royalty Pharma plc - EVP of Research & Investments

Thank you, Pablo, and good morning and good afternoon, everyone. Slide 9 summarizes the regulatory and commercial progress across our portfolio since the second quarter. Overall, the progress across the portfolio was on balance very positive. A few highlights include the FDA approval and launch of Roche's Evrysdi for SMA just weeks after we acquired that royalty from PTC Therapeutics; the expansion of our Biohaven partnership; the European approval for Vertex's Kaftrio, which is an important growth driver within our cystic fibrosis franchise; and the positive clinical data for Immunomedics' Trodelvy in both urothelial cancer and triple-negative metastatic breast cancer.

However, I think you are all well aware that the PENELOPE-B trial of Pfizer's Ibrance was disappointing and that the GALACTIC top line results of omecamtiv need to be elucidated further. Finally, the $21 billion acquisition of Immunomedics by Gilead provides a strong validation of our hybrid funding strategy, and I want to expand on this a little bit in my next slide.

So this is Slide 10. As a reminder, at the start of 2018, Royalty Pharma provided $250 million in capital to Immunomedics to fund the development and launch of Trodelvy in metastatic triple-negative breast cancer and other indications. This includes $175 million to acquire a royalty on Trodelvy and $75 million to acquire equity in Immunomedics.

As the clinical data for Trodelvy has been released and following the FDA approval of Trodelvy in April of this year, there's been a significant increase in analyst consensus expectations with 2029 consensus sales rising from $1 billion at the time of our transaction to over $4 billion today. In September of this year, Gilead announced the acquisition of Immunomedics.

When we step back and think about this, it's our belief that the outcome of our hybrid funding strategy has been very beneficial to all parties as well as to the future of cancer treatment. On a purely financial basis, the proceeds from our equity investment already guarantee a 1.5x cash return on our $250 million investment equivalent to a high-teens IRR without even factoring in the future royalties. And of course, beyond this, we will continue to receive royalties on a perpetual basis.

Looking at this more broadly, we were able to provide capital at scale to Immunomedics at a critical time in their development, a time when equity would have been highly dilutive. And this capital allowed them to further develop Trodelvy to maintain key global rights and to avoid a significantly dilutive equity raise.

So we -- and we believe the additional global marketing capabilities of Gilead and its ability to further fund further R&D on the molecule can only enhance Trodelvy's potential and bring the benefit of this important therapy to more patients. So while you often hear us talk about a win-win deal, this is a win for multiple stakeholders, most importantly cancer patients that need Trodelvy.

On Slide 11, I want to highlight our most recent transaction wherein we acquired the residual royalty interest of the Cystic Fibrosis Foundation in Vertex's CF franchise. So in exchange for a $575 million upfront payment and a potential $75 million milestone, Royalty Pharma will receive all royalties on annual franchise sales above the threshold of $5.8 billion, whereas previously, these were shared 50/50 between our company and the Cystic Fibrosis Foundation. As you may have seen from Vertex's Q3 results, this franchise is growing very rapidly following the successful launch of the triple therapy Trikafta. And Vertex has guided to franchise sales of $6.0 billion to $6.2 billion in 2020, a more than 50% increase at the midpoint over the $4 billion reported in 2019.

With Trikafta, Vertex has expanded the proportion of cystic fibrosis patients that may receive benefit from potentiator and corrector treatment to around 90%, and further sales growth is expected from launches in new geographies and in younger age groups.

As we do with all of our transactions, we carried out comprehensive due diligence, examining all facets of our royalty agreement. And we confirm that the royalty is perpetual and not tied to patent expirations of the individual components of franchise products.

In terms of the financials, we are confident that the transaction will enhance our long-term adjusted cash flow compound annual growth rate based on a range of forecast scenarios. We've been clear with investors that for approved products, we are targeting unlevered returns in the high single digits to low double digits. And for this investment, we expect a return at least on the high end of that range and likely better.

So with that, I will hand it over to Terry.

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Thanks, Jim. Let's move to Slide 13. We had another good quarter with total royalty receipts up 7% compared to last year's third quarter on a pro forma basis. As you can see, royalties from our largest franchise, cystic fibrosis, grew 36% this quarter, driven by the strong launch of Trikafta in the U.S. and more recently, Kaftrio in the EU. Imbruvica, Xtandi and Promacta all demonstrated strong double-digit growth in the quarter.

Slide 14 shows how our royalty receipts translated to strong adjusted cash flow in the quarter. As you're aware, adjusted cash received is a key non-GAAP metric for us, which we arrived at after deducting noncontrolling interest. This amounted to $472 million in the quarter, growth of 12% compared with last year's third quarter on a pro forma basis. When we move left to right, operating and professional costs of $59 million equated to 12.6% of adjusted cash receipts. The step-up over the second quarter of this year reflected certain IPO expenses as well as expenses related to our bond offering.

R&D funding was substantially lower than the year ago quarter given the completion of the Ibrance adjuvant breast cancer funding in 2019. Net interest of $15 million was sharply lower as it reflected the impact of the debt refinancing and a shift to semiannual interest payments arising from our bond offering for which the next interest payment is not due until March of 2021. As a result, interest expense paid in the fourth quarter will be close to 0. Had we refinanced our debt and the unfunded revolving credit facility was in place as of July 1 and interest were paid quarterly, interest expense would have been $33 million in the third quarter.

We also recorded no expenses related to the investment in nonconsolidated affiliates as we included an accelerated payment related to Avillion that otherwise would have been paid in Q3. This payment occurred in Q2. We anticipate that a funding payment for Avillion will occur in Q4.

This resulted in adjusted cash flow, which -- what we view as our bottom-line earnings of $394 million or $0.65 per share. This is an adjusted cash flow margin of 83.4%, highlighting the strong financial leverage in our business model.

Slide 15 gives you some greater context as to why we were delighted with our successful $6 billion unsecured bond refinancing, which extended our cost of capital advantage. Pablo alluded to the terms being among the best achieved across the biopharma space. Here, you can see that the weighted average coupon on our bonds of 2.125% is the second lowest among our peers and is more than 100 basis points below the median of 3.19%.

On the right, you can see that we doubled our weighted average maturity to over 12 years through the offering, which is again ahead of the industry median. We also have access to a $1.5 billion revolving credit facility, which provides additional flexibility for capital deployment. To assist with year-over-year comparisons, on a normalized basis, if the new debt had been in place for the full year, interest expense paid would have been $131 million for 2020, which also includes a small fee for the revolving credit facility.

Looking at our balance sheet on Slide 16, we ended September with cash and marketable securities of $2.1 billion. The increase over the first 9 months was driven mainly by the adjusted cash flow I just described, together with the proceeds from debt refinancings of $728 million and IPO proceeds of $1.9 billion.

Cash outflows over the period amounted to $1.9 billion. The largest cash outflow was the $1.4 billion deployed on royalty acquisitions. We finished the quarter with $6 billion of investment-grade debt. And we now have a $1.5 billion revolving credit facility, which enhances our liquidity. Taken together with leverage of 2.3x EBITDA on a net basis and 3.5x EBITDA on a gross basis, we remain well positioned to execute on our business plan.

On my final slide, we're raising our full year 2020 guidance. We now expect adjusted cash receipts to be in the range of $1.78 billion to $1.8 billion, an increase from $1.7 billion to $1.76 billion previously. There will be no contribution in 2020 from our recently announced deal with the Cystic Fibrosis Foundation. The first potential contribution from that acquisition would be in the first quarter of 2021 as royalties are paid on a lag.

We continue to expect our operating costs to be approximately 10% of adjusted cash receipts. Importantly, this guidance is based on our portfolio as of today and does not take into account any future acquisitions.

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

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

Thanks, Terry. I want to close by reiterating our confidence in our outlook for the long-term, sustainable growth. The third quarter encapsulated a number of themes that support this confidence. We delivered strong financial results, which allow us to raise our full year guidance. We improved our capital structure through a highly successful bond offering and our secondary share offering.

Recent news flow has been very positive on our royalty portfolio, reinforcing our long-term growth outlook. And we have not only remained active in deal making, announcing total transactions of $2.3 billion so far this year, but our transaction pipeline remains active and very exciting.

The chart on the right shows that we continue to capture a leading share of available royalty acquisitions in a market that is growing, fueled by the innovation in our industry and the growing appreciation of the value of royalties to provide nondilutive financing to bring practice-changing medicines to patients. In short, Royalty Pharma continues to be at the heart of funding the golden age of life sciences innovation.

With that, I would like to open the call to Q&A. Back to you, George.

George Grofik

Thank you, Pablo. We will now open 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 Merrill Lynch, Research Division - Research Analyst

Congrats on the quarter. I just had a couple. The first one is the rationale for the expanded CF agreement. The question is what's changed from when you signed the original deal with the CF Foundation. And how do you see CF revenues scaling now to warrant the $650 million acquisition cost?

And the second question, I guess at a higher level, concentration risk is pervasive throughout the biopharma industry. And you guys have some risk as well, but you do have a long duration with respect to CF. So I guess the question is, is diversifying outside of CF a major strategic priority. Or do you guys feel like you have plenty of time to address that?

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

Sure. Thank you for the question. And I'll answer the first part of the question related to the rationale for the CF transaction, and then turn it over to Terry to answer the question on diversification. So the CF space for us has been one where we've actually made investments now for close to 20 years. I recall having acquired a royalty in one of the first antibiotics that was reformulated for cystic fibrosis. I think it was 1997 or 1998, Tobi. And we established a relationship with the foundation at the time with the man that ran it, Bob Beall, who really built it into the formidable patient advocacy foundation that has also been very important in funding research for that patient population.

In 2014, while Bob Beall was still leading the foundation, we did that landmark deal, $3.3 billion acquisition, when we acquired the royalties on the Vertex CF franchise from the foundation. And at the time, the foundation, having sold $3.3 billion of the asset, retained a smaller portion, which is really 50% of the sales of the royalties produced by sales above $5.8 billion.

And when we did that deal in 2014, only Kalydeco was approved. The other doubles and triples were not approved, and the foundation retained that sharing portion essentially to capture upside if it materialized. And the view was that the sales forecast at the time was about $6 billion. So they did not ascribe much value to the upside.

But what's happened since then, obviously, the doubles have been launched, the triples. The franchise has grown very nicely. And it turns out now that, that residual has value. And the foundation is in a very unusual position in being an entity institution that is an advocate for cystic fibrosis patients.

So they have always felt very uncomfortable in actually earning payments, having economics on products that they funded but which are being sold to the cystic fibrosis community. And at times in the past, for example, I recall Bob telling me stories of how when they were trying to get governments to reimburse the product and add them to the formularies, the state senators in some cases, had said to the foundation, well, of course, you're going to advocate for that. You own a royalty. And he was very uncomfortable in that position.

So now that this residual has value, it was just a very natural thing for the foundation to seek to monetize the residual so that they wouldn't have any economic interest on drugs that are being sold to CF patients where they could be accused of having an economic interest. And so that's the rationale.

And obviously, from our perspective, having had a 20-plus year relationship with the foundation, knowing them intimately, having a constant dialogue with them, we were in an extremely strong position to acquire this asset. And that's what happened recently, and we're very happy about that investment and are extremely excited about the economic -- the return expectations and growth that it's going to provide to Royalty Pharma.

Terry, I'll pass it on to you now to talk about diversification.

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Sure, thanks, Pablo. So we're very happy with our current diversification. I think this quarter, a little over 25% of our royalty receipts were from CF. I think what you'll see over time, even as that franchise continues to grow, I think what you'll see over time is that we will just sort of naturally diversify as we continue to make investments and as other products within the portfolio continue to ramp. So I think we feel very good about it, and we'll continue to sort of naturally diversify over time.

Operator

Our next question comes from Steve Scala with Cowen.

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

Congratulations as well on a terrific quarter. Two questions. Given Royalty Pharma's business model, it generally is not considered to be a beat-and-raise situation, but nonetheless, this quarter it was. So what aspect of the business surprised management? And are there aspects of your business that can be surprising in future quarters even when you're looking at a 1 quarter delay in reporting?

The second question is more big picture, but neuroscience appears to be the next frontier, things like Huntington's, Alzheimer's, DMD, autism and so forth. Royalty Pharma has made some investments in neuroscience, but in lower-risk areas, such as migraine and SMA. Is this because of Royalty Pharma's concern over risk of technical failure? Or are there just not that many opportunities in neuroscience?

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

Terry, do you want to take the first question on surprises during the quarter? And maybe Jim and Marshall can address -- take the question on neuroscience.

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Sure. So Steve, as you know, our royalties are reported on a lag. But there tends to be -- there can be some sort of question in terms of what the actual royalty-bearing sales percentage is. So that does create sort of a little bit of uncertainty for us on a quarterly basis.

But I think that what -- the reason for the beat and raise this quarter is really sort of strength across the portfolio. So when we gave guidance, we generally are sort of using consensus estimates and also using some of the guidance that the companies give. And across the portfolio, this quarter, I think sales have been really quite strong. So CF performed really well, Tysabri performed really well, Xtandi performed really well, HIV performed really well. So I think that it was sort of just a function of the products within the business performing so well that led us to increase the guidance.

Jim Reddoch - Royalty Pharma plc - EVP of Research & Investments

It's Jim Reddoch. Steve, yes, I'll start on your second question about neuroscience. And maybe I'll just back up a little bit to say that to a degree, our pipeline is based on kind of where the industry goes in terms of the diseases and therapeutic areas and indications that it focuses on. And it's

been a very cancer-focused world and a very autoimmune-focused world for the past decade or so. So to a degree, our recent acquisitions do reflect that a bit.

But I would completely agree with you that neuroscience is very important. Those represent some huge opportunities, both in terms of unmet disease need and also commercially. So we're very interested in it and probably shouldn't go into too much detail on what's in the pipeline but would just agree with you that, that is an important area that we need to make sure that we're covering.

I mean we do -- we don't -- we wouldn't be careful and a good fiduciary in terms of making sure that there's sufficient evidence for the products and the royalties that we go into. But I do think that with time, some of the diseases that you're talking about will really lend themselves to be nice fits in our portfolio and to really continue to diversify the portfolio.

Marshall, do you have anything to add?

Marshall Urist

No, I think that covers it. Steve, I would just add that this is an area we've spent a lot of time in, have looked at, have looked at multiple things as part of the pipeline and will continue to do so. But I think, as Jim said, I think our bar and our approach and what we're looking for in new opportunities is not going to change going forward. And I think we have and we'll continue to apply those same standards as we look at neuroscience as well.

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

Steve, maybe I'll add to Terry's response on performance. And I think one of the things that's been sort of interesting thing following this year is the resilience of our portfolio. And Terry talked about the products that comprise our portfolio and their qualities. And one of the things that was interesting to see in the '08 - '09 financial crisis was, again, very strong resilience. At the time, I thought maybe the business was not going to grow as predicted or as we expected. And it continued to grow very nicely for that period of a year or two when we were in that very deep financial crisis.

The current economic situation is very different than the '08 - '09 crisis given the pandemic. And it's been also a pleasant surprise to see that even in these times, our portfolio has continued to perform really well because of the attributes of the products that we have. And it has, and as you pointed out, performed better than the expectation going into the year.

And I think it speaks a bit about the business model of Royalty Pharma with very strong financial leverage, very -- revenues, very low expenses. great diversification and products that are really the premier product in many of the therapeutic areas that are generally the products that companies focus on to deliver growth and profitability. So we benefit from that, obviously.

Operator

Our next question comes from David Risinger with Morgan Stanley.

David Risinger - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Let me add my congrats as well. So I have one question for Pablo and one for Terry. Pablo, could you discuss your plans for future investments, including the mix of investments that you anticipate in on-market drugs versus development-stage drugs?

And then Terry, with respect to the recent cystic fibrosis transaction, how should we think about the blended royalty rates going forward relative to the roughly 10% that Royalty Pharma has been recording in recent years? And what is the potential timing of the $75 million milestone payment? And what is that tied to?

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

So in response to your first question about mix of investments, as we've highlighted before during a road show and in other earnings calls, our business has obviously an opportunistic element where we're talking to many potential partners at academia, universities, hospital, foundations and then biotech and pharma. And it's difficult for us to predict what deals are going to end up closing.

Now what I would tell you is that we're very excited about the current pipeline that we have. It's larger, diverse, larger than it's ever been and diverse. And that's because of the underlying trends in the industry where there's a huge need of capital among biotech and pharma to develop great drugs that are in their pipelines. And more and more, as we all know, the innovation is occurring at academia, universities, hospitals, which end up with royalties.

In terms of the mix between approved and unapproved, as we've said repeatedly in the past, currently, our portfolio of investments in unapproved products is relatively low. It's less than $0.5 billion of investments in products that are not yet approved. Where in the past, it had been many billions of dollars, $3 billion, $4 billion after 2014 when we did the Cystic Fibrosis Foundation transaction. And obviously, a lot of those got approved and have become really attractive investments for us like Imbruvica, like Tecfidera, cystic fibrosis and others recently, obviously, Immunomedics.

So that's an area where we believe there's huge demand for capital, biotechs that are getting into late-stage clinical development and need capital. And that's an area where our hybrid investment strategy will play, I think, a growing role where we will continue to fund biotech companies through hybrid transactions. And that's an area where I'm very excited about for the future prospects of Royalty Pharma.

So if you look at the past where over the last 8 years from 2012 to 2020, we've done a little bit more than $14 billion of deals, and about 55% were in approved products and 45% were in unapproved products, I think a mix like that in the future wouldn't be unusual. But you have to look over a couple of year, 2-, 3-year time period because it could be the case that in 1 year, maybe we do 80% of the investments in unapproved or 80% in approved. But I think over time, those things were balanced out and will have a very nice mix.

But realize that the portfolio -- the value of the portfolio and things that are approved is so large, and the portfolio produces so much cash flow, $2 billion -- close to $2 billion of revenue from approved products that, that gives us the strength because that $2 billion that is being generated by the approved products is diversified, it's predictable, it's growing. It's very long, 15-year weighted average duration. So that puts us in a really unique position to be able to take a little bit of risk.

Now it's going to be calculated risk, diversified risk, where we invest $1 billion or $2 billion, maybe more over the next couple of years, 2, 3 years in unapproved and with huge potential upside for Royalty Pharma and our investors. So it's an area that we're very excited about and where we believe there's very significant potential.

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Dave, on your question about the royalty rates, so we have not given the specific royalty rates, but I can sort of speak generally. So they're really in 2 buckets: You have ivacaftor, lumacaftor and tezacaftor, and the royalty rates on those compounds is single digits to subteens. And then the other bucket is elexacaftor, and that has a mid-single-digits royalty.

So the first, the bucket 1, that would really include Kalydeco, Orkambi and Symdeko. And so that bucket's going to sort of have generally a higher royalty rate because it doesn't have the elexacaftor component. As the mix shifts to the triple, which has 1/3 at a mid-single-digit royalty rate, the royalty will trend a little lower over time. But we haven't been -- we're not being totally specific on what the royalty -- what the actual rates are.

With regard to the milestone payment, we haven't disclosed the trigger or the timing of that milestone payment. But what I can say is whenever we structure deals where there are milestone payments, we are very happy to pay those milestone payments. So -- but we haven't -- for confidentiality reasons, we haven't described the details of the milestone.

Operator

Our next question comes from Chris Schott with JPMorgan.

Christopher Schott - JPMorgan Chase & Co, Research Division - Senior Analyst

I just had 2 questions. I guess coming back to deal structure and some of the hybrid deals, I guess, how important is it for you to take an equity stake in the partner as you consider returns on deals versus just a pure royalty? I guess all else equal, would you prefer a pure royalty structure? Or do you actively seek out an equity stake when you think about these development-stage deals?

And then my second question is on a small topic of development-stage deals. For the deals you've pursued that haven't happened, what's the primary pushback or rationale you get from that partner of not working with royalty? Is it just that it was more favorable return-wise to due to an equity raise? Is it the complexity of the deal? Is it a competitor stepped in? Trying to get a sense of what's the kind of hurdle rate to getting some of the deals that you've missed on done, I guess.

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

Sure, and I'll ask Jim to answer the second part of the question, but -- and I'll answer the first. But maybe I'll also just say with regards to deals that don't happen, often, it's because of diligence issues, that we decide we don't want to make the investment because we couldn't get comfortable with certain aspects. It could be IP-related or other things.

But regarding the equity and hybrid deals, the reality is that we're incredibly open-minded about how to structure things and very flexible. Because at the end of the day, what we really are trying to do is to be the best partner for companies and other holders of royalties and really the partner of choice to them and address their needs, their concerns, essentially solve problems for them. And being flexible is really important.

And we have no problem if a holder of our royalty wants to finance through -- or a holder of a product that needs capital in late stages wants to finance purely with a royalty. We would be very happy to do that. And if at the end, they see value in us buying equity because it could be a validation for the company, the product, it could also result in them getting more capital that they may need, in those cases, we're very happy to also acquire an equity position.

Now we generally do that when in companies that are sort of -- where the investment we're making in the product is going to drive in a very meaningful way the long-term performance of the equity. So if we do a deal with a large pharma and finance a Phase III for a large pharma, there's no point in us buying equity in that company. It's much more geared towards companies that are single product or maybe they have a couple of products, but the success of the product we're funding will drive the equity performance.

And one of the things that I would say there is that we're going to continue to be creative. You probably saw in the Biohaven deal that in addition to -- like in the Immunomedics deal and Epizyme deal, we did equity. But in the recent Biohaven deal, we decided to do something different with this preferred equity structure, which we saw more as launch capital to where Biohaven is going to invest another $200 million that we're going to provide over 4 years in the launch of Nurtec to make sure that, that product receives the capital that it needed to really make it a very, very successful launch.

And we're going to earn a 12% return based on the payments that we'll get from us providing that $200 million, 12% unlevered over the next 10 years or so, very attractive return with very little risk. There's no -- it's fixed payments. So again, we -- in that particular case, we already own the royalty. So for us to make that additional investment was very, very attractive for us, attractive for the company and made a lot of sense, making everything a win-win.

So I think we're open-minded and really, there's no -- what I tell the team always when we are approaching an investment -- and this has been the rule for decades is we have to come to a transaction with an open mind, with a blank piece of paper. Let's not take the last deal we did and use that as a framework or as a model.

Because in reality, when you think of life sciences, every case is different. The product is different. The clinical development program is different in size, different in time, might take a year, 2, 3 years to develop a product, one study, multiple studies. The competitive environment will be different when the product gets approved. The duration of the royalty is different. Everything is different. So you cannot -- the best approach for us has been to actually approach each situation with a very open mind, listen carefully to our partner, try to understand what their needs are, what is driving them and then come up with solutions. And that's how we approach things.

Jim, do you want to take the other question?

Jim Reddoch - Royalty Pharma plc - EVP of Research & Investments

Sure. Chris, so in terms of deals that don't happen and why that is, I would say Pablo did answer it to a degree with -- by saying something didn't check out in diligence. So that's a possibility.

I would say another time that, that happens is if the company is acquired. We've had that happen a few times where we're getting pretty close and then somebody takes them out. I guess it's also possible that the company's stock runs up and previously selling a royalty to us was a better cost of capital. But if the stock runs up, maybe the -- an equity issuance becomes a better cost of capital.

But I would say most of the time, if it is a product that we have conviction in, we can almost always show the company something attractive. I kind of think that's the beauty of the stock world versus the royalty world is in the stock world, if you don't like the price of the stock, then you kind of have to move on and not have a transaction where you buy the stock.

But in our world, there are always ways to get to agreement because we can structure the product, and we can have a different forecast than the company that we're talking to and still -- and that's not an impasse that ends the conversation. We can keep talking and find a structure that ends up being a win-win after all. So it's really a fascinating aspect to the royalty world. And it's the reason that we can usually show companies something that is very constructive and works for them if it's a product that we really believe in.

Operator

Our next question comes from Greg Gilbert with Truist.

Gregory Gilbert - Truist Securities, Inc., Research Division - Analyst

Pablo, to what degree can your existing team and set of capabilities assess all the opportunities that exist out there. I'm curious what capabilities you'd like to add or bolster as you look out over the next 5-plus years. It would seem that a lot of the expertise you need to diligence things are sort of rentable or borrowable among experts, external to the company. But curious on your vision as to what you would like to bring in-house, if anything, additional. And then also for Pablo and maybe for Chris, do you see other companies that have purchased or otherwise accumulated various royalty streams as possible acquisition targets, given your super-efficient structure and potential cost of capital advantages?

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

Sure. Thank you for the question. So regarding the first part of your question about the team. If you look at Royalty Pharma 10 years ago, the team was smaller, and it's grown gradually over time in a very sort of thoughtful, cautious way. And even over the last year or 2, it's grown. We've added obviously, a great addition to the team has been Chris, who has an incredibly deep network and experience in life sciences. And with him, we added

an individual that's working very closely with Chris, Matt Lyons, and then added over the last year or 2, maybe 3 or 4 people, maybe more now that I think about it, 5, 6 people. With COVID it's difficult to keep track of all of the additions because everybody is working remotely.

But in the more sort of junior levels in the research team and added also on legal. Legal, for example, we've added over the last 6 months 2 additional members to the legal team in addition to George and Jason, really experienced lawyers with transactional expertise and capital markets expertise.

So we've done that carefully over time, and we will continue to add over the next 12 to 24 months. I think you might see another half a dozen to a dozen people added to the team, which is not significant. It's maybe a sort of a 20% addition to the team.

And I think you pointed out 1 really -- there's 2 things actually that I will say. One is there's a lot of work that happens before we make an investment. And when I say a lot of work, it's work that could happen over a decade where we're following a therapeutic area, like TNFs or oncology. And that -- those areas we follow regularly and go to the medical conferences. And then opportunities come about. And in some cases, we follow the asset. We have the asset in our model. We have a view about its commercial potential, about clinical trials that are being run for that specific asset. And we have -- we may have been following that asset for 5 years. And then all of a sudden, a transaction becomes possible, we jump on it. And we can react in a matter of days to actually making a proposal to a company with that particular asset because we've been following it for a long time. And that's what the research team does all the time.

But then in terms of -- so the point is we follow broadly the life sciences ecosystem and always are trying to anticipate what are going to be the attractive areas for the future, and we had a discussion a few minutes ago about neuroscience and CNS, which we're very excited about for the future.

But then what also happens is that when a transaction becomes live, we can -- the research team and legal team will lead the diligence and negotiations. But in addition to the team at Royalty Pharma that might be working on that specific asset, which could be half a dozen people, 3 or 4 on the research team and also a couple on the legal side, we actually often lever the internal expertise with maybe 50, 100 people that are outside of Royalty Pharma, where we reach out to doctors that -- consultants that we've been talking to about. It could be multiple sclerosis or oncology, where we've known the key opinion leaders in those areas for decades and we have a constant dialogue with them. So we reach out to them, have a discussion about the new opportunity, try to understand all of the specifics of that asset.

But then we also bring -- so in addition to the doctors, key opinion leaders that we're going to consult, we also reach out to regulatory experts, reimbursement experts, manufacturing experts and a whole host of other consultants. And that is exactly the way that this business should run. When I started Royalty Pharma, I realized that the specifics of each investment are so unique that it's impossible to have all of the experts internally at Royalty Pharma. It won't make any sense, and it would be actually a detriment.

Because what we want is to have the regulatory experts out there in the real world working with companies so that they can stay up to date and relevant so that when we go to them, they know exactly what is the current state of affairs in that specific field. It could be regulatory, it could be reimbursement. It could be even IP. You want -- we have internally a legal team that's excellent, but we also want to go out to law firms that are expert in intellectual property that are constantly updating themselves.

And what you will find is that there's people out there on IP that are experts in very narrow fields. It could be TNFs, it could be antibodies, it could be -- now with other, newer technologies, gene therapies. There's people that have that level of expertise, and we always want to go to the people that are current in all of those things.

So that's how we approach the business. And that's -- and the beauty of it is that because we don't have all of the sales and marketing and other aspects that the companies out there have, we have an incredibly lean, very efficient entrepreneurial team, and that's the way this business works, and it's our strength.

Gregory Gilbert - Truist Securities, Inc., Research Division - Analyst

The royalty question.

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

Yes. Sorry, can you repeat that question? I...

Gregory Gilbert - Truist Securities, Inc., Research Division - Analyst

Sure. Sure. Do you see other companies that have purchased or otherwise accumulated various royalty streams as possible acquisition targets, given your super-efficient structure, cost of capital advantages?

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

Sure. Yes, and you can ask Chris to answer that. What I would say is more than companies that have accumulated royalties is probably companies that own portfolios of royalties because they had maybe a platform technology. And those could be interesting partners to Royalty Pharma.

And Chris, do you want to add anything to that?

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

Yes. I mean the only thing I would say, Greg, is the way in which we think about M&A on something like that, to me anyway, would be more efficient to maybe acquire the royalties out of that company and let them sort of reposition themselves and invested in their own new R&D or whatever.

Or in the sense of sometimes mid-cap biopharma companies may want to do M&A, but maybe don't have the capital resources to accomplish cash M&A or something. I could see us coming in and helping somebody do something like that as opposed to acquiring a company outright. There's premiums you have to pay, there's breakage, there's shutdown costs. There's potentially tax inefficiencies of acquiring a company outright. So we would actually much rather sort of partner to help a company accomplish M&A and acquire royalties out of those companies.

Operator

Our next question comes from Navin Jacob with UBS.

Navin Jacob - UBS Investment Bank, Research Division - Equity Research Analyst of Specialty Pharmaceuticals and Large Cap Pharmaceutic

Your guidance bump on the cash royalty receipts, it was about $58 million, of which probably $20 million by my math is perhaps due to the cystic fibrosis deal. The rest of the $30 million, if my math is correct, what products are driving that better performance?

And that leads to the next question, which is as you look at consensus estimates for the next 5 to 10 years, for the 100% sales -- at 100% sales economics, what products do you think are underappreciated by The Street? Is it Xtandi, cystic fibrosis, Trodelvy or something else, please?

And then just a longer-term question, you stated that the biopharma royalty market has grown by 50% from 2015 to 2020. Where do you see that growth over the next 5 years? And do you expect to maintain your share of 60% of the market?

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

Terry, do you want to take the question on the outperformance?

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. Sure. Yes. So just to clarify, Navin, none of the increase in our guidance was driven by CF. We're not going to have any -- or not by -- sorry, none of it was driven by the recent CF acquisition. That will not have any impact in 2020 whatsoever. The first time that we would have residual royalties or we would get those residual royalties that we bought from the foundation would be in the first quarter of 2021.

And so what's really driving performance? I think it's sort of strength across the portfolio, but particularly strong performance came from the CF franchise, Tysabri, HIV, and then also a little bit from diabetes as well from Januvia and Janumet. So those were particularly strong. But I think that -- and we're very happy with the underlying performance of the business.

You asked about products that we think have the potential to -- or where consensuses might be not modeling it correctly or where we have a more optimistic view. I think we're probably refraining from talking about that right now. I mean we're really excited about a lot of the sort of launching products in our portfolio. We take a very, very long-term view though, so that's always how we approach the world. But yes, I don't think we'll get into which products we think could beat versus others. And the -- go ahead, Jim.

I can take the question to industry question.

Jim Reddoch - Royalty Pharma plc - EVP of Research & Investments

I can take the royalty industry question. So you make a good point that we've had incredible growth in the royalty industry, 50% growth in the last several years. And we do think that there are a lot of great royalty assets out there that will continue to fuel the growth. And when you add in synthetic royalties, the ability to essentially create a royalty on any product, then I believe that, that's going to result in even further exponential growth layered on top of that over the next several years, just as companies view synthetic royalties as a new modality by which to raise new capital in addition to equity raises and converts, the more traditional route. So we really are sensing kind of a upswelling of interest in doing synthetic royalties with us or the other players.

And there are other players, and I can't promise that we'll always be in a dominant market share position with 60% or be able to grow that. But I am very encouraged with the growth in the overall industry, and I think that, that will more than make up if we have market share slippage because we just think that this is a growing industry.

And that the -- our acquisitions or the number of potential acquisitions out there will continue to show a nice growth rate, even if there are new players out there. In fact, new players actually probably will expand the industry even more because there are more people out there besides us talking about the advantage of selling royalties as a way of capitalizing companies and new research.

Operator

Our next question comes from Michael DiFiore with Evercore.

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

Congrats on the quarter. Just a couple of quick ones from me. Just given all the current political uncertainty, how might Royalty Pharma's tax structure get affected depending on who gets control of the Senate? And how do you see drug pricing pressure evolving next year?

And then just a more general follow-up. If you could just point to the most important clinical readouts for your portfolio in the next 12 to 18 months, that would be very helpful.

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

Terry, can you take the question of taxes and maybe, Marshall, the question on prices and clinical readouts?

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

Sure. So this is something that's come up fairly regularly, and I think that there is a little bit of a misunderstanding. So I think it's really important to point out that the discussion on U.S. tax reform relates to U.S. individuals and corporations. We are a U.K. plc. We're not a U.S. corporation. So this discussion is really not applicable to Royalty Pharma. And we're not aware of any potential changes to the U.K. or Irish tax code that would change our tax status. We've really been structured in much the same way as a pass-through with no corporate or withholding taxes since 2003. So we don't anticipate that there's going to be any changes there. I'll pass it over to Marshall.

Marshall Urist

Yes. So first of all, just on the pricing and policy landscape. We feel good about both where the current portfolio is and our approach moving forward, no matter how the sort of policy and pricing landscape evolves in the years to come.

So on the current portfolio, as we've talked about before, we have a highly diversified portfolio of products, important products that meet unmet -- that meet real unmet medical needs to add really fundamentally to patients and doctors and the treatment of those diseases. So regardless of how that landscape might evolve, we think a portfolio like that is going to be best positioned.

As Pablo touched on earlier, I think as we move forward, we have -- strategically, we have complete flexibility across therapeutic areas, modalities to really be tactical and respond and evolve and incorporate new information on the policy front into how we look at new products and how we position the portfolio going forward. So I think we feel really good. It's something we're obviously following the happenings on the policy front closely. But I think our portfolio and our strategy, it really sets up well to evolve with the industry. So I think the second part of your question was just on key readouts looking forward.

So I think I'd name -- first to make a big point, I think Royalty Pharma, given that diversity, isn't defined or dependent on a single readout or a handful of readouts. And I think that's always important to keep in mind. But with that being said, I think as we look into next year to name a few things, certainly, Trodelvy and the readout in HR-positive metastatic breast cancer in 2021 will be important in significantly increasing the addressable market for that product. Xtandi and M0 prostate cancer and the EMBARK trial, we are looking forward to that one as well. And then I'd also mention a couple more, the PT027 which is an AstraZeneca product in asthma will have data next year as well. And then finally, the recent Biohaven deal with the intranasal zavegepant, we'll see the data from Phase III for that next year as well.

So again, not -- so I think all -- we're looking forward to those. But again, I think those don't -- in no way define the story.

Operator

Our next question comes from Terence Flynn with Goldman Sachs.

Terence Flynn - Goldman Sachs Group, Inc., Research Division - MD

Maybe 2 for me. I was just wondering if you can comment broadly, Terry, on how to think about expenses for 2021. If we should expect those to generally be similar to this year on a percentage basis? Or if there's any kind of high-level puts or takes that we should consider?

And then on omecamtiv probably for Marshall, just wondering if you have any initial perspective there on the data. I know we're going to learn more later this week. And any key learnings that you might apply to future precommercial deals?

Terrance P. Coyne - Royalty Pharma plc - Executive VP & CFO

So Terence, on expenses, we're not going to -- we're not right now going to give specific guidance, but I can sort of speak generally. That sort of I think the way to think of it is the sort of fixed -- there's a fixed component and a variable component. And the fixed component is going to be in sort of the 7% of adjusted cash receipts range. And then there's a variable component that's related to -- in this year, there were certainly a lot more variable costs related to the IPO and the bond offering. But the variable will sort of include also audit, legal and rating agencies and D&O insurance and all of those other costs. So they do add up, but those are the sort of rough parameters of how to think about it going forward.

Marshall Urist

And Terence, thanks for the question on omecamtiv. So I think like everyone else, we're really looking forward to seeing what is presented on Friday, both in terms of the top line data and any further details we get as Amgen and Cytokinetics dig into the data. So I think we'll know a lot more in a couple of days, and we'll look forward to seeing how that evolves.

I think in terms of learnings, I would say that in general, we always, when things go well or don't go well, we're always very disciplined about incorporating any learnings from that into our process. But big picture, I think, as Pablo mentioned, as we look back on precommercial or development-stage investments, it's been hugely positive for Royalty Pharma and brought in really great products due to the portfolio both in the past years and then even this year with the Trodelvy and Nurtec.

So I think we feel good about our process. Some things will work, some things won't work. That's part of this industry, of course. But we are going to stay disciplined and stick to that discipline when evaluating precommercial opportunities.

Operator

Thank you. And I'm currently showing no further questions at this time. I'd like to turn the call back over to Pablo Legorreta for closing remarks.

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

Sure. Thank you. Thank you, operator, and thank you to everyone on the call for your continuing interest in Royalty Pharma. My team and I look forward to sharing our progress with you as we build our unique leadership role in funding life sciences innovation.

If you have any follow-up questions, please feel free to reach out to George. With that, we will conclude the call. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.