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PRESENTATION

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Thank you, guys, for joining us. Pleasure to have the CEO and CFO of Royalty Pharma join us. There's a lot to talk about. But before we do, let me first turn it over to Pablo to kick things off and maybe share some opening comments.

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

Umer, thank you very much. And good morning to everyone. It is a pleasure to be here to discuss Royalty Pharma and share why we're so excited about the future of our business. For those of you not familiar with Royalty Pharma, we have been a pioneer and leader in the royalty market for over 20 years. The royalty market is growing rapidly as royalty funding in biopharma becomes more widely accepted and awareness grows. For context, there was around \$5.4 billion of royalty transactions in 2020. And we think this is just a fraction of the total addressable market.

Our business model is unique in that it provides many of the best attributes of biopharma for our investors without exposure to the common industry challenges. And given our portfolio's duration and success in investing in positive NPV deals, we're able to stack royalty streams and drive compounding growth at a scale.

In terms of our deal activity, we're very encouraged by our performance so far, having announced \$5.5 billion in royalty acquisitions since the beginning of 2020. This includes providing up to \$2 billion in capital to MorphoSys this past June, our biggest and boldest transaction since our IPO, to enable mid-cap M&A. And a couple of weeks ago, we agreed to provide \$200 million in funding to expand our partnership with BioCryst, similar to our partnership with Biohaven. We believe our series of BioCryst deals show our unique ability to provide customized funding to support our partners during their growth journey.

Lastly, to put our deal activity in perspective, the \$5.5 billion in transactions, we announced, puts us well above the run rate we had previously indicated of \$7 billion of capital deployed through 2025, which underscores the important role we can play in funding innovation in life sciences. We remain as excited as ever about our pipeline and expect to continue to layer new cash flow streams on our existing business and deliver top-tier growth in biopharma.

With that, I would be happy -- Terry and I would be happy to take any questions.

QUESTIONS AND ANSWERS

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Outstanding. Well, there are several layers to just get into here, Pablo, but maybe let me start a little more higher level. I think for a while, you guys traded as a proxy for drug pricing. And I feel like at many levels, that's sort of behind us and the impact of your portfolio specifically was very limited. But I think if -- to the extent market has sort of thought about Royalty Pharma as a proxy for some thematic issues in the market, I feel like one

emerging theme, which is a very large theme is the funding, I wouldn't call it an issue, but there are some challenges in this mid-cap land, just given the sheer number of new companies that came public and that we're going to have the need, over time, to raise a lot of capital.

I guess, how are you thinking about the opportunities that creates just from an alternative source of non-dilutive financing partner potentially being available, which is not subject to a market price for these companies? And what that means for possibilities into next year?

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

Thank you, Umer. Excellent question. And I agree 100% with your view and perspective that mid-cap biotech is an incredibly interesting space for us to be involved with. And it's really in two fronts, one is just funding these companies. When they have products that get into late-stage clinical development, we can be their partner and provide capital. And as you said, a non-dilutive way to enable these companies to bring this product forward. And maybe Terry can add a little bit about that.

But let me just add an additional perspective, which is M&A and mid-cap, and which is a very exciting opportunity for us. And I mentioned in the remarks I made a few minutes ago about this deal with MorphoSys, which is exactly that kind of transaction. The reason we're so excited, if we look five years ago, in 2016, the number of mid-cap companies with a market cap of \$1 billion to \$20 billion was only 50, 5-0. The number of mid-cap companies with a market cap of \$1 billion to \$20 billion today is more than 200. So it's a 4x growth in number of companies in that sort of market cap range.

And what's so interesting to realize is that many of these companies are companies with really exciting products, strong management teams. And many of these companies are starting to commercialize their first or second drug. But what often happens is that they do not have a bigger pipeline or bigger -- several drugs that they can market to make all of the marketing more efficient and acquisitions, M&A becomes really important for this class of companies.

And that's where we can become very effective and really become the partner of choice for these companies, like we did with MorphoSys and help them in acquisitions. It's something that did not happen much in the past because for a mid-cap company, it's very difficult to get the financing they need to acquire a company. Banks find it very hard to lend to them because they might be lending against a company with an approved product, but negative cash flow. They're not yet earning profits or single product risk, but we can come in and provide significant capital like we did with MorphoSys \$2 billion-plus to facilitate these transactions. And we think that's a very fertile ground for us to get involved with.

Terry, maybe you want to comment about just how we can fund mid-cap companies in their clinical trials.

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

Yes. I mean it's -- I think it's a great point, Umer. I mean it's an opportunity -- a big opportunity we see ahead of ourselves. The capital needs in the industry, we've looked recently at some numbers and unprofitable companies today are going to need something probably north of \$1 trillion over the next decade, which is sort of a remarkable number. And we think we could play a very important role. I mean, selectively, we're going to continue to try to fund the best products that we really have a real high confidence that they'll ultimately get approved. But I think there's a huge opportunity for us there.

It's been an area where we -- it's been growing. And we see -- the sort of pipeline, the funnel, we're getting so many more inbound calls in those -- from -- on the sort of synthetic royalty front, where we would sort of fund R&D in exchange for a royalty. It's a big opportunity that we think will continue to -- royalties are going to grow, we are the market leader in royalties. We think that it will really be an important part of our business going forward.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Maybe just getting a little more specific. I want to turn it over to Mike from there, but maybe getting a little more specific to your business. I feel like one big question that has been a theme ever since the first comments from JPMorgan, this year, by Vertex Pharmaceuticals, was around sort of their new program, which will be low or no royalty bearing. And there's two layers to that. One of them is, is it truly low or no royalty bearing? And I think you guys have a take on that. Let me come back to that in a second. Maybe Mike can go through that on the deuterated side.

But let's say, for a second, let's take it at face value, it truly is a low or no royalty bearing. When I run the math through on a truly how much does the royalty go down, the max reduction in royalty is, I don't know, by our math, something like \$500 million, give or take, the reduction of royalty, if it were to truly happen.

But then when I break it down into MorphoSys, Tremfya being \$250 million to \$300 million, maybe the Constellation bed at \$50 million, maybe another \$50 million or so that you get from the bond and maybe some risk adjusted off of the RA asset as well.

In your mind, Pablo and Terry, do you guys think the max possible shortfall from Vertex was possibly solved on just the MorphoSys deal alone?

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

Umer, I think your calculations, and Terry can go through some of the math, but what I would say is that, yes, absolutely, the upside potential from -- first of all, there's a great asset in the MorphoSys deal that is providing already cash flow, and it's going to grow very nicely, which is Tremfya, which really sort of underpins our acquisition -- our deal with MorphoSys and the fact that we help them in their acquisition.

But then there's also gantenerumab, which we're very excited about. There's still some risk there, but we think it can be best-in-class drug and a very significant revenue contributor for Royalty Pharma. But -- and that's one example.

I think what's also really important, Umer, is that when you look at the amount of capital that we have deployed since we went public -- because that's one transaction of many, we've deployed more than \$5 billion. I mentioned the figure of \$5.5 billion. Of the \$7 billion that we guided to, over 5 years, we've already deployed \$5.5 billion. So we're way ahead of what we guided to.

But that -- leaving aside the MorphoSys deal, the other transactions that we have made have contributed very significant cash flow to the point where it's probably north of \$500 million of additional cash flow that will be generated by the investments that we have made. And we made a calculation recently that for every \$1 billion of capital that we deploy, and correct me if I'm wrong, Terry, but \$1 billion, 5 years out, we generate \$170 million of revenue.

And that's looking at two decades of deals. When you look at the amount of capital that we deployed in 2015, 2016, 2017, and then you say, that capital per billion deployed, how much does it generate? And we're talking about \$170 million. So that gives you a sense of how the business is going to grow as we continue to deploy capital and how the relative contribution of the cystic fibrosis assets is going to diminish. So that it's going to be relatively small in 3 years, in 5 years.

But Terry, you want to go through some of the math?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. I mean, I think you touched on something really important, Umer. It's our ability to overcome headwinds to the business, whatever they are, patents or competition or you name it. This is a very resilient business. And I think -- so we've said that we see this, our estimate is under a downside scenario.

And we think there's no debate about the tezacaftor component of the new triple which would bring our royalty on the new triple to 4%. But we've said that under a downside scenario where deuterated Kalydeco is not royalty bearing and we're only getting paid on the tezacaftor component.

We see it as a couple of hundred million dollar headwind towards the back half -- towards the end of this decade. And so when you put that into context and what Pablo is saying about capital deployment. But in just this year alone, I think, is a great example, we lost the HIV royalty this year, and it was \$150 million headwind approximately on the topline. And we've guided to growing our topline this year by 17% or 18%. So it's -- I think that really speaks to the resilience of the business.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Excellent, Excellent. Mike, did you want to follow up on that?

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

Yes. Just to kind of dovetail on the MorphoSys deal, with gantenerumab, in whole context of the recent drug pricing Medicare reform legislation, you said it on your previous call that from that standpoint, maybe is Imbruvica and Xtandi would be affected. But you also projected that gantenerumab could do multibillion dollars of sales in the future, it could be best-in-class. So could, in the future, if it gets to that level, could gantenerumab be very high on that Medicare list such that it is subject to these -- the Part B and Part D, mostly Part D, pricing concessions? And have you planned for that?

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

So Terry, why don't you take that question, but let me add one thing, Mike. What's important here to realize is that the equation has two components that matter. One is volume and one is price, right? And when you look at volume here and realize that there's millions of patients that need a drug, like gantenerumab, what's going to drive huge sales for this drug, really significant sales, multibillion dollars of sales for this drug is going to really be volume. And then obviously, if you have the question of price, but Terry, why don't you go ahead and...

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

Yes. So it certainly has the potential to be on the list. The latest we've seen is that biologics will not be eligible to be on the list for, I think, 13 years. So that's a nice long window from when it would be approved. But if it's as successful as we hope it could be, it certainly should be on the list at the end of that time period, but that's a nice long runway.

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

Right, right. Fair enough.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Terry, by the way, can I -- sorry, just going back to one thing you said, is it the base case for you guys right now? Or is it not the base case that deuterated Kalydeco will owe you royalties?

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

We believe that deuterated Kalydeco is simply Kalydeco, and that Kalydeco -- and that it should -- it will have the same royalty rate as Kalydeco.

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

Umer. We spent \$3.3 billion to acquire that -- those assets in 2014. And last year, when we bought the residual, which really gave us -- we own 50% of the royalties above \$6 billion, and what the foundation had kept was 50% of the royalties. The other half of the royalty is above 6%. And we paid \$600 million for that. We actually very carefully reviewed all of the IP again with many patent advisers, law firms in the U.S., outside of the U.S. And I'm very comfortable with our position, confirmed our view, but we got very comfortable with that Kalydeco -- deuterated Kalydeco is Kalydeco. And there's actually precedents, legal precedents that have played out like we see it, that it will be royalty bearing. So we're very confident of our position.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Can you speak to any of those precedents, which ones they are?

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

We could later on give you some data points of similar cases that have played out, and you'll see how.

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

Yes. No two legal -- these situations, none of them are -- they all have their own facts and circumstances, but sort of we've been very clear in our position, and that has not changed.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Terry, when you were buying -- when you were topping off the 50% of the sales above the high threshold from the CF Foundation last year, were you guys aware at the time that Vertex was possibly heading towards a Phase III initiation of a low royalty bearing?

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

We knew the product was still in development. We didn't...

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Doesn't -- Phase II, but stalled for a while, I felt.

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

We hadn't seen an update. We saw the data at the same time that you all saw the data we knew it's still in development. We just didn't know what it would look like. But when we saw the data there was nothing that we saw that would suggest it's better than Trikafta. So...

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

And we did obviously factor all of that into our analysis and the \$600 million that we paid for that additional residual took that into consideration.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Excellent. Sorry, Mike, go ahead.

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

No, that's it for me in terms of CF. I just have one more question. Just going back to...

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

No, no. We're limited on time, so we should move on perhaps from this.

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

Sure. Just back to your, I guess, capital deployment. Now it's obviously at a much higher level than they had the \$1.5 billion per year that you had core to the Street at the time of IPO. So is this now the new normal? And how could we model cash deployment going forward since it has a profound effect on the valuation of the company?

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

What we're going to do, Mike, is in our Analyst and Investor Day, in -- later in the spring of next year, we're going to guide -- provide some guidance with respect to capital deployment. But there's just no question that we invested \$2 billion in 2019, the year before, \$2.3 billion the year before our IPO, \$2.4 billion last year, the year of our IPO. And this year, we're at \$2.8 billion. So there's no question that it's definitely north of \$2 billion per year, right?

And I think when you look at the tailwinds that exist, they're so strong in terms of the capital needs of this industry that we're just very pleased with the way the business has developed. And at the end, it was probably a smart thing to guide conservatively. And then as we are -- we're a young company, and it was probably a good thing to be conservative.

And now we've seen 1.5 years go by, we're very confident on what we're seeing and very excited. And I think we'll give some guidance in the spring, but obviously, it will be a higher level of capital deployment than what we guided to.

Umer Raffat - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research

Got it. Pablo, my last one, just as we start to wrap it up here. Would there ever be a possibility that you guys are open to giving some sort of long-term guidance, maybe a path to, I don't know, \$4 in earnings at a certain year. Would that ever be on the table?

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

Terry, do you want to take that question?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

I think, yes, we certainly -- we're going to look at our long-term targets at the Investor Day in the spring as well, and that's something that we'll try to take a fresh look at.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Outstanding. Excellent. I know we're at time. So I want to be very, very respectful. Thank you, guys, so much for joining us. Pleasure to have you guys every time.

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

Thank you.

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

Thank you. Thank you, Mike.

Umer Raffat - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research*

Great seeing you. Absolutely.

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