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

## PRESENTATION

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

Well, good morning, and welcome to the Royalty Pharma session at Cowen's 42nd Annual Health Care Conference. We're very pleased to have top management of Royalty Pharma here with us again this year. Representing the company is Marshall Urist, who is Executive Vice President and Co-head Research and [Investments] (corrected by company after the call) as well as joining us for Q&A, Terry Coyne, who is Executive Vice President and CFO.

Before I turn it to Marshall to show a few introductory slides, I just would like to note that we at Cowen view Royalty Pharma, as one of the most differentiated companies in biopharma given the fact that it is positioned to enjoy the promise of innovation, but we do believe with less risk. So interesting situation and to learn more about that, I will turn it to Marshall.

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

Thanks, Steve, and good morning to everyone. So we are delighted to be back at the Cowen Health Care Conference this year. Hopefully, next year, we will be doing this face-to-face. But just to start off, like Steve said, we have a few introductory slides just to talk a little bit about where Royalty Pharma is today and why we're excited about the future. So before we get into it, just on Slide 3, I'd refer you to our disclaimer for any forward-looking statements that we make today.

So Slide 4 is a snapshot of our portfolio today. So we own some of the premier royalties across the industry. These are royalties on some of the most transformative medicines that are out there today backed by world-class marketers. So we have royalties on 35-plus approved products, 10 development stage products, 14 of these are blockbusters today, and we have a very attractive weighted average duration of 13 years in our portfolio today.

Thinking about it in terms of financial metrics, Adjusted Cash Receipts, which is what we think of as our revenue in 2021 was \$2.1 billion and Adjusted Cash Flow or our bottom line was \$1.8 billion, really illustrating the efficiency of our business model.

On Slide 5, it guides a little bit deeper into our growth profile since our June 2020 IPO. We've had seven consecutive quarters of double-digit bottom-line growth. And the 18% growth that we achieved in 2021 is especially gratifying because in 2021, we also experienced the loss of our -- the expected loss, I should say, of our royalties on much of Gilead's HIV portfolio. As a reminder, coming into last year, this was the fourth largest royalty in our portfolio, 13% of total royalty receipts in 2020, and our ability to generate really attractive growth this year speaks to the strength of our existing portfolio, the momentum from the recent transactions and addition to our portfolio and the fundamental strength of our business model, which is our ability to reinvest and regenerate our portfolio to drive growth into the future. So really, that's the core and the strength of Royalty Pharma's business model.

So on Slide 6, we take a little bit of a closer look at what we've done over the past couple of years in terms of growing the portfolio. So in 2020 and 2021, we've deployed \$5.5 billion of capital, adding 20 unique therapies to our portfolio. Nine of those are currently or projected to be blockbusters,

eight are development-stage, meaning they weren't approved at the time of the acquisition, and these span five distinct therapeutic areas. If you take these together, they'll contribute \$750 million to our estimated 2025 Adjusted Cash Receipts that -- and that figure is based on consensus.

And then if you consider the development-stage portfolio that we've added since -- that we have added in 2020 and 2021, those have the potential to add further to that figure. So we're excited about what we've done since the IPO. And I think gives -- this also gives a flavor for our open business model or the therapeutic-agnostic approach that we take, where we look at everything very much on a case-by-case basis and can really focus on where we see attractive innovation happening across the industry.

So moving on to Slide 7, if you take a little bit of a closer look at the products we've added since the IPO, the early performance of these transactions has been really encouraging. The majority of the approved therapies have seen significant increases in consensus forecast, and I think that reflects a couple of things. One is the strength of the research and investments and diligence and analysis platform that has been built over the long term at Royalty Pharma. We have a very disciplined consensus-driven process and that has generated a focus on some really nice -- really nice products in the portfolio that we've added recently. On the right here is a table of -- from the development-stage side about some of the data events and readouts we'll see from our portfolio over the back half of this year. It is a busy year there, and I'm sure, Steve will ask about some of that as well during the Q&A.

So on Slide 8, speaks to now looking forward, just how excited we are about the opportunity in front of us. And we all know that there's been a tremendous amount of innovation across biopharma over the last few years, that's been reflected in a number of things. But on this slide, we have a couple of what we see as leading indicators of the future huge opportunity in front of us. The amount of company formation has been absolutely incredible in biotech, the number of biotech IPOs has really created a whole new crop of -- a whole new crop of innovators out there, and we see that as just further expanding our potential to fund these companies looking at it a different way.

If you take the cumulative spend of the unprofitable biopharma companies today over the next decade, it's an impressive \$1.1 trillion of total projected spend, really speaking to how -- really speaking to the depth and breadth of the need that is out there for what Royalty Pharma has to offer in terms of supporting innovation and gives you a little bit of -- it gives you a glimpse into why we are so excited about the future.

So moving on to Slide 9, if -- so we've been executing pretty well against those capital deployment objectives that we talked about at the time of the IPO, where we had projected we would deploy over \$7 billion between 2020 and 2025. And in a little over two years, we've already announced transactions of \$5.9 billion. So tracking really well there. And looking at our pipeline today, it remains robust and really reflects a lot of the positive underlying market fundamentals that we talked about -- that we just talked about on the last slide.

We get asked a lot about what are our return metrics, how do we assess these opportunities, and that's laid out on the right here, which is if we think about unlevered IRR on approved therapies, we focus -- we target high-single to low-double-digits, and then on development-stage therapies, we're looking for teens. If you think about our cost of capital, we see that as a competitive advantage. Our weighted average cost of debt is a very attractive 2.24%. And we see our capital structure and our ability to use leverage, as a competitive advantage, both in terms of growing the portfolio and in terms of its potential to significantly enhance returns.

So then just wrapping up on Slide 10, putting all of that together, this should give you a sense of why we are so excited at Royalty Pharma, [why] it's really a unique opportunity within our industry. We are a pioneer in biopharma royalty funding. We have a -- what we see as a unique set of competitive advantages and leadership in what is a rapidly growing market.

The portfolio today is really well diversified with long weighted average duration of more than a decade and we're growing that portfolio ahead of -- at a faster rate than we've targeted. From a financial perspective, we have a very efficient business model. 80% of our top line cash receipts are converted to capital that can be reinvested or returned to shareholders. And we've delivered strong performance since our IPO from a growth perspective, growing our top-line 18% in 2021. And all that leads to what we see as the potential for attractive long-term compounding growth. So a quick snapshot of Royalty Pharma today and happy to get into some questions-and-answers, Steve.

## QUESTIONS AND ANSWERS

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

Sure. That's a great overview. Thank you for that, Marshall. So let's start out talking about the opportunity that Royalty Pharma has. So it was previously noted that you looked at 300 potential royalty opportunities in the past year and then did a deep dive on 61 of them. And I'm just curious, were there any kind of defining metrics that related to those 61 that made those stand out from the 300. And I'm thinking it could be a number of things, it could be probability of success, it could be the therapeutic area, it could be the competitive landscape that product would traffic in or it could be underlying economics, or it could be all of them. So can you step back and look at those 61 and say, okay, this was a more frequent reason than that relative to moving those products into full review?

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

Sure. I can address that. And Steve, most of the things you mentioned, I think, except one, are kind of the guiding light of how we think about kind of triaging things that come at the top of our portfolio. And our focus is really on the -- how exciting is this product, the science, the team, the commercial opportunity, and it's really about wanting to kind of stay -- keep the quality bar really high, and you see we've done that when you look at that portfolio snapshot in our slide.

The one thing you mentioned is we're not financial metric driven from the very beginning. We want to start with super high-quality products that are supported by all of those positive factors that you mentioned. And that in a lot of ways, is the most important thing to making it to the next level of the funnel, as you described it.

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

Okay. And has there been any discernible change in the complexion of what you look at, say, when you compare now to three years ago, and as you think forward and project your business going forward, how you anticipate those opportunities to change. So perhaps in the metrics we laid out in the prior question, do you -- have you seen a change to date? And do you expect a change in the future relative to the nature of opportunities that you can go after?

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

Sure. So overall, I would say, we're really happy with the complexion and the mix of the pipeline and where we are today. We have a really good mix of a proof of royalty opportunities on approved or launching products, the later-stage development opportunities, synthetic royalties, et cetera. So I think really, really nice to see, as we've talked about before, the depth and breadth of the royalty market is improving all the time, and I think that's reflected in our pipeline today.

Part of your question was what has changed over the last few years? The thing I would mention is, we've talked about kind of a secular growth trend in using royalties, as a funding mechanism in biopharma. So what we talk about as synthetic royalties to fund launches or to supercharge launches or to fund development. And so I think, certainly, that's been a real story for us over the last few years. And so we're certainly seeing more of that if you compare that to several years ago, but that's been a really nice trend over the next few years, and you guys have seen how we've been able to capitalize on that to add some nice things to the portfolio.

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

Okay. The final kind of big picture question in that is, of the 61, you did the deep dive on in the last year, five went to final execution. Is that kind of a normal rate that we should expect in the future? Or was this abnormally high or abnormally low versus what we should expect?

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

Yes. That's a good question. So I wouldn't necessarily focus on five over 61 as a specific ratio that's important to look at. I think what is important to think about, I think that overall structure of the funnel is what we want to achieve, which is we want the quality bar to be really high. We want to have a culture in our team. I think we do today, and we don't want to get away from this, where we're not pressured to -- ever feel pressured to do things. We want these to be things that make sense for Royalty Pharma. So I think that number is always going to be much larger at the top and much smaller at the bottom, and that's exactly the way it should be.

Part of that's quality, part of that is we, like everyone else, have to decide, where we're going to put our time and effort because as you know, we do really deep work. So I think all of those things sort of play into what you're seeing. So I think from a big picture, I think that trend will continue into the future, and that's kind of as it should be.

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

Okay. Has anything changed on the competitive landscape since IPO? And are you seeing anything in the competitive world that is new and different, such as different royalty structures or terms?

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

No. I think we haven't really seen any major changes from a competitive perspective. We still feel like we're very, very well positioned given the team and the structure and the cost of capital and the scale of the portfolio to win the deals that we are really excited about. But we also -- we think that competition is a really good thing because as particularly synthetic royalties become more and more common, showing a depth in the -- to the market is actually-- will help pry more of these assets loose. And we think that we're optimally positioned to win the really good ones that we're excited about.

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

ESG has been something, which comes up a lot in the investment world. Just wondering how does it factor into your analysis of Royalty opportunities?

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

Yes. So it's become more and more of a factor for us, as you can imagine. And I think for us, we're ultimately -- we're very passive. And so the sort of common sort of ESG framework that people would look at a traditional pharmaceutical company might not necessarily apply to us. But we think that how we think about ESG is, it's sort of embedded into our investment process.

And so we need to invest in companies that have their own really strong ESG initiatives because we're ultimately relying on them to manufacture the products, make the products available all throughout the world and to be good stewards of investor capital. And so it's kind of more of an upfront part of our process. And if we -- if something didn't check out from an ESG perspective, that probably means it's not -- it would -- it really wouldn't meet the threshold for us to make an investment. And so that's kind of how we look at it. It's very -- it's different, I would say, than a traditional pharma company.

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**Kathleen Marie Miner** - *Cowen and Company, LLC, Research Division - Director*

Steve, before we -- may I ask one quick follow-up. When you're talking about that -- you're seeing a greater use of synthetic royalties, was that the most common structure in your transaction in -- transactions in 2021? And do you expect that in 2022?

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

2021 was really a mix. I mean we actually -- MorphoSys was a great example. There was -- there was a big existing royalty in Tremfya. They also had two royalties in what we view as very interesting, exciting pipeline products in gantenerumab and otilimab. And then we created two royalties that were part -- that were products for -- at Constellation. And so overall, though, I think we are probably a little bit more -- at least from a capital deployment perspective, it was a little more geared towards royalties that already existed. But that is going to ebb and flow.

And there's years, where I think back to 2018, we ended up doing more synthetics and we didn't -- we think we only did one deal on an existing royalty. So it's -- we kind of take it case-by-case. We're focused on quality, whether that means it -- it's already there as a royalty today or something that we can create. That's -- I think the quality sort of it needs to check all the boxes in terms of things that we would be interested in before we would ever make an investment anyway.

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

Terry, you mentioned otilimab, actually Hal Barron, Chief Scientific Officer of GSK was here yesterday. And of course, he was talking about the program given the Phase III readout that's coming later on this year. And he did mention that they have a follow-on molecule or molecules. I'm just wondering, does your royalty agreement on otilimab extend to other members of the family? Or is it limited to otilimab?

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

So it's good to hear that they were talking about it. We didn't catch that presentation. We haven't elaborated on anything beyond otilimab that's in the contract at this point.

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

Okay. A few years ago or maybe a year or two ago, Royalty Pharma noted the -- or announced the collaboration for the index with MSCI. And since then, we haven't heard a whole lot about that. So maybe you can update us on what the status of that initiative is and when it might start to become more visible to investors?

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

Yes. So the way we've described it is, it's a way to highlight that there are -- Royalty Pharma can be pretty flexible in how we can create value for shareholders hopefully and at very little incremental cost to shareholders. The way that we always thought about the MSCI collaboration was it's some -- it's part of a bigger mega trend in sort of the asset management world to have these sort of focused ETFs. And it's an area, where we thought that, that we could leverage a lot of the internal resources that we have of tracking these products and understanding the exciting areas of innovation, but it is something that's going to take time.

And we've described the -- it as multiyear that it could hopefully become something that's important to us, but it's going to start very slow and hopefully ramp to be something that's attractive over time. The nice thing is that it ultimately would be like a perpetuity if it does generate revenues. And we did announce that there's that -- I think the first index launched. It was -- it's focused on urology. And hopefully, there's more to come over the coming quarters.

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

Okay. Let's drill down into some of your specific products, maybe the first being Alzheimer's. So you have the agreement on gantenerumab. It does look best positioned to either prove or disprove the amyloid hypothesis. So it's a good choice on Royalty Pharma's perspective. But would you

consider if the opportunity arose, adding more royalty arrangements in the area of Alzheimer's? Or is it of a risk profile which the Company thinks should be limited to perhaps just one program?

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

Sure. Good question. Maybe a couple of different thoughts on that. I think if you take a step back from your question, I think it's important to point out that it does highlight what we see as one of the real strengths of our kind of open business model, is that we can participate in multiple products in the same class, as the class grows, which is something that's pretty unique about what we do compared to other players. And you've seen us do that in CGRP and TNF, and we really like to create those opportunities when they make sense.

In this case, it's always -- we always kind of approach everything with an open mind. So it would depend on sort of the facts and circumstances and the timing and the structure and what it was. And there's so many things that, that play into it. We're trying to find the thing that's sort of a win-win that makes sense for RP.

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

Okay. I wouldn't suspect that any -- there's any news on this front, but since it was mentioned by a competitor, I'll mention it here. So Vertex apparently was at an event last night, where they were, again, talking about their next-generation CF programs maybe able to garner a lower royalty, and I believe they're at our conference later today. So is there anything new on this front that Royalty Pharma would like to enlighten shareholders on relative to the CF franchise?

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

No. I think our thinking around the CF franchise hasn't changed. We're still very excited about the future growth potential of that investment. We think that Trikafta is going to be a very important product in the CF market over the long term. We have sort of characterized because we know investors wanted to -- want to understand the different levers in the areas of risk, and certainly, Vertex has discussed a potential lower royalty rate.

We have always said and continue to believe that, that a deuterated version of Kalydeco is simply Kalydeco and should be royalty bearing at the same rate. But we've also tried to frame the sort of bookends of -- if that does not end up being the case under a hypothetical scenario, what that means to our business? And we've described that as what we view as a couple hundred million dollar potential headwind to our Adjusted Cash Receipts, as we get towards the end of this decade.

And if you think about that in the context of the growth profile of the business of our sort of the opportunity that we see ahead of ourselves, even just looking at the past in 2021, when we lost HIV, it was around \$150 million top line that went away, and we still grew 18%. We also -- we -- at recent -- in the beginning of the year, we also described the impact of some of the new investments that we made over the last couple of years. And we said that in 2020 and 2021, if you look at the investments that we made, we -- using consensus estimates, those products are expected to add over \$750 million to our top line by 2025 with a lot of upside from some of the development stage products that aren't really in those numbers.

So I think these are things that competition or patents or things like that, these are the normal headwinds that anyone in -- operating in this industry can face, but we think that we are, and we have demonstrated that we're uniquely positioned to be sort of resilient and be a compounder in the face of various headwinds that any business can face.

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

Last question on this topic. Do you think investors will kind of get definitive visibility on the situation with the CF franchise and relative to the royalty. Will that come in 2022? Or would that be later than 2022?

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

We haven't elaborated on any timing of visibility at this point.

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

Okay. Let's move in our last few minutes to the migraine franchise. Is it -- so you have a couple of opportunities here. Is it developing as you expected?

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

Good question. So I think on -- like a lot of people, I would say we're super excited about what we've seen from Nurtec and the oral class in general. The team over there has just done a spectacular job certainly executed in a market like that against the big competitor -- against the big competitor like AbbVie ahead of our expectations. So I think overall, we're -- we've made a pretty big commitment to Biohaven and that team, and we're excited about what they've been able to do and really like what's happening in that class.

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

So we are down to just a couple of minutes, and we are concluding all of our sessions with this question. So if you'll allow me to ask it here. When you look down a decade at the Royalty Pharma business, and compare it to what it is now, what do you think the biggest surprise will be to us externally? So it's something maybe we're not seeing at this point, but will become very prominent and evident a decade from now. So perhaps you both have different answers, but I'll just throw the question open to either of you.

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

I'll take a crack at it. I think we have talked a lot about this, but I think that maybe there's a certain element of investors that would like to see proof. It's the scale of the opportunity and the impact of how our business can scale with that. I think that, that's going to be hopefully something that really plays out over this next decade. We are super excited about it. We think that the capital needs of the industry are only getting bigger and the roles of -- the role of royalties within that sort of sources of capital are growing as well. And so it has this compounding effect, and we think that it's going to lead to very attractive sort of compounding growth of our business over the long term. It's something that people might not appreciate- the opportunity for this business to continue to scale.

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

I assume you agree, Marshall, but any additional views?

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

Yes. No, I think Terry is absolutely right that it's the scale of the opportunity, what we think the team can do with Royalty Pharma, where this business is going, that I think is what we're over the next decade excited about.

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

Okay. So you do have your inaugural analyst event in the spring time. Might the scale of the opportunity be something, and I know you've talked about it, and I know, we also know the scale of the opportunity because we're professionals in this business. But might Royalty Pharma's vision of the scale of the opportunity to become clearer at your Analyst event?

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

It's certainly something that we're going to be -- that we're going to be talking about and trying to frame the opportunity for investors.

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

Okay. Great. Well, we look forward to that event, and we look forward to an exciting decade ahead for Royalty Pharma. So thank you, Terry. Thank you, Marshall. And we hope you have a productive day.

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

Great. Thanks a lot, Steve.

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

Yes. Thanks, Steve. Thanks, Kathy. [Bye-bye].

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