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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma First Quarter 2021 Financial Results Conference Call.

I would now like to turn the call over to George Grofik, SVP, Head of Investor Relations and Communications. Please go ahead, sir.

George Grofik - *Royalty Pharma Plc - Senior VP, Head of IR & Communications*

Good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's first 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 contains 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 10-K on file with the SEC for a description of these risks.

With that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, founder and Chief Executive Officer; Marshall Urist, EVP, Co-Head of Research and Investments; Jim Reddoch, EVP, Co-Head of Research & Investments and Chief Scientific Officer; and Terry Coyne, EVP, Chief Financial Officer.

Pablo will discuss the key highlights, after which Marshall and Jim will provide an update on our royalty acquisitions and 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, will also join the Q&A session.

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

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

Thank you, George, and welcome to everyone on the call. I am delighted to report a great start to the year for Royalty Pharma, building off our strong momentum in 2020. Our financial performance in the first quarter was excellent with strong double-digit top-line and bottom-line growth.

In addition, we continued to execute well against our strategy. We announced up to $787 million in new royalty transactions as well as an exciting new thematic index collaboration with MSCI.

And looking ahead, our pipeline continues to be very active as the demand for royalty funding of life sciences innovation is exceptionally strong.

Lastly, we're also raising our guidance for Adjusted Cash Receipts for 2021.

On Slide 7, you can see our financials in a little more detail. In the first quarter, we delivered 37% growth in both Adjusted Cash Receipts and Adjusted Cash Flow, what we consider to be our top and bottom lines, respectively. This excellent momentum positions us well to deliver another year of strong performance, as Terry will speak to when he discusses our raised guidance for this year.

So overall, I'm extremely pleased with our start to 2021. And for reasons we will highlight during this presentation, we continue to believe our prospects look very promising.

Before I hand it over to Marshall and Jim to update you on our royalty portfolio, I would like to elaborate a bit more on our recently announced collaboration with MSCI to develop and market thematic indexes in life sciences, biotechnology and the pharmaceutical spaces.

Thematic investing is a fast-growing category of assets under management globally, and we believe we can leverage our unique skill set based around our deep scientific and clinical knowledge and our data analytics capabilities to develop novel indexes in partnership with MSCI, an innovative index provider.

We see this collaboration as having a number of benefits to Royalty Pharma. First, it is expected to create a recurring and growing license revenue stream on global life sciences under management linked to these indexes. Second, we believe it expands our commitment and recognition as a leading funder of innovation in the biopharmaceutical industry. And third, we expect that upfront costs required will be minimal as we already have the capabilities in place to contribute to this important new collaboration.

In terms of the financial contribution, we expect this collaboration to start small and play out over a longer period of time. That said, thematic index investing is a rapidly growing area with more than $400 billion of assets under management, of which approximately $100 billion are invested in ETFs and $300 billion in mutual funds. With health care representing an important segment of the economy, contributing around 18% to U.S. GDP, we think this collaboration could be an attractive source of recurring cash flow over time.

With that, I will hand it over to you, Marshall.

Marshall Urist - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments*

Thank you, Pablo, and good morning and good afternoon to everyone. We're really excited about the royalty acquisitions we have announced so far in 2021. And I'd like to take a couple of minutes to highlight two of our recent transactions, which expanded our portfolio of innovative high-growth therapies.

Beginning on Slide 10. In April, we learned -- we announced the acquisition of GlaxoSmithKline's royalty interest in the cabozantinib products, Cabometyx and Cometriq. For an upfront payment of $342 million and potential milestones of $50 million based on approvals in lung and prostate cancer, we will receive a 3% royalty on worldwide net sales.

Cabometyx is a leading TKI approved for renal cell carcinoma and hepatocellular carcinoma and is marketed by Exelixis in the U.S. and by Ipsen and Takeda outside the U.S. Most recently, Cabometyx received regulatory approvals in the U.S. and Europe for use in combination with the PD-1 inhibitor Opdivo in first-line renal cell carcinoma. Cabometyx is also in a number of ongoing combination studies in kidney, liver, lung and prostate cancer. Overall, we see a tremendous opportunity for this therapy to improve treatment outcomes for a large and growing number of cancer patients. And as reported by Exelixis last week, the early launch in first-line kidney cancer in combination with Opdivo is off to a good start.

In terms of the financials, the Street expects Cabometyx and Cometriq sales to grow from just over $1 billion in 2020 to $3 billion by 2025. And we are excited to add this important therapy to our portfolio and expect it to deliver an attractive return for Royalty Pharma as well.

Now moving to Slide 11. We're excited by the opportunity for Oxlumo, a transformative medicine that significantly improves the lives of patients suffering from the ultra-rare genetic disorder, primary hyperoxaluria type 1 or PH1. Oxlumo is an RNA interference therapeutic, which lowers levels of oxalate that are abnormally elevated in PH1, resulting in kidney stones, and ultimately, kidney failure. Oxlumo was approved in the U.S. and Europe in November 2020 and is marketed by Alnylam, a company that has pioneered RNA interference therapies and successfully launched other rare disease medicines.

Last month, we acquired Dicerna's mid to high single-digit royalty interest in Oxlumo for an upfront payment of $180 million and $60 million of potential sales-based milestones. Following its launch at the end of last year, the uptake has been encouraging and we are optimistic that the number of patients that could benefit from Oxlumo should expand with increased awareness and diagnosis.

Consensus estimates show sales of $333 million in 2025, and Alnylam has described a potential market opportunity in excess of $500 million. Similar to Cabometyx, we expect Oxlumo to generate an attractive return for Royalty Pharma.

And with that, I will hand it over to Jim.

James Reddoch - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments and Chief Scientific Officer*

Thanks, Marshall, and good morning, everyone. As shown on Slide 13, we have seen strong progress from our portfolio in the first quarter, and there are multiple upcoming clinical and regulatory events that could impact our portfolio throughout 2021.

So far in 2021, we have seen an important development for our migraine portfolio with the start of the Phase II/III study on Biohaven's intranasal zavegepant. As a reminder, we agreed in August 2020 to fund the development of this therapy by providing up to $250 million to Biohaven. Should this therapy be approved in migraine, we will receive 1.9x the funded amount or $475 million, which would be paid over a 10-year period and also a royalty on sales.

Additionally, in the first quarter, Biohaven filed for European approval of its oral migraine therapy, Nurtec ODT.

And lastly, the European regulators approved Roche's Evrysdi for SMA as well as BioCryst's Orladeyo for hereditary angioedema.

In April, the FDA granted full approval for Trodelvy in triple-negative breast cancer and accelerated approval in urothelial cancer.

In addition, we saw the European approval of a subcutaneous formulation of Tysabri.

For the rest of the year, I would call out the upcoming clinical data on Cabometyx in first-line hepatocellular carcinoma and in prostate cancer; the readout for Trodelvy in hormone receptor-positive breast cancer; as well as the Phase III results of PT027, the combination asset therapy that we have funded through Avillion that would be marketed by AstraZeneca.

So in short, you can see the multiple milestones over the coming quarters showing the continued development of our portfolio.

And with that, I'll turn it to Terry.

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

Thanks, Jim. Let's move to Slide 15. We delivered a very strong first quarter with total royalty receipts up 19% year-over-year. As you can see, royalties from our largest franchise, cystic fibrosis, grew 68% this quarter. This substantial growth was driven by 2 factors: first, the continued strong performance of the franchise led by growth of Trikafta in the U.S. and Kaftrio in the EU, the impact of which was enhanced by our acquisition of the residual royalty interest from the Cystic Fibrosis Foundation in November of last year. And second, a onetime adjustment related to Vertex's agreement with the French authorities around reimbursement for Orkambi that reduced royalty receipts in the first quarter of 2020.

Imbruvica, Xtandi and Promacta also contributed double-digit growth in the quarter.

We are also pleased with the contribution from several recently approved therapies, including Trodelvy, Evrysdi and Nurtec ODT. Nurtec is becoming an increasingly important contributor to our business after we received a $16 million payment from Biohaven on the Series A preferred equity this quarter. This payment was triggered by the approval of the product last year and is the first of 16 consecutive quarterly payments we will receive.

We also experienced a couple of headwinds this quarter. Specifically, the HIV franchise was down significantly, primarily as a result of the LOEs for Truvada and Atripla as well as a lower percentage of combination sales attributable to emtricitabine in the United States. We expect similar dynamics to impact the HIV franchise in the second quarter, leading to year-over-year declines.

Taken together, the portfolio drivers mentioned previously as well as contributions from several recently approved products more than offset the impact of declines in royalties for the HIV franchise, delivering strong growth in Total Royalty Receipts.

Slide 16 shows how our royalty receipts translated to strong Adjusted Cash Flow in the quarter. As you're aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrive at after deducting noncontrolling interests. This amounted to $524 million in the quarter, growth of 37% compared to last year's first quarter, as Pablo noted earlier. We did recognize a high base of comparison in the first quarter of 2020 that increased our growth rate in the first quarter of 2021. Excluding this item, year-over-year adjusted cash receipt growth would have still been 22%.

When we move left to right, operating and professional costs of $42 million equated to 8% of Adjusted Cash Receipts. This percentage is lower than in the past couple of quarters, which included certain IPO expenses as well as expenses related to our bond offering.

Net interest of $63 million reflected the first semiannual interest payment following our $6 billion unsecured note offering in 2020. As a reminder, the next semiannual interest payment is due in September meaning our net interest expense will be de minimis in the second and fourth quarters.

After other items of $7 million, we reported Adjusted Cash Flow, our bottom-line earnings, of $409 million or $0.67 per share. This translates to an Adjusted Cash Flow margin of 78.1%, again, highlighting the strong cash conversion in our business model.

Turning to our balance sheet on Slide 17. We ended the quarter with cash and marketable securities of $1.8 billion. The decrease of just over $200 million since the start of the year reflects the $521 million deployed on royalty acquisitions, which was largely offset by the strong Adjusted Cash Flow I just described.

We finished the quarter with $6 billion of investment grade debt, which, alongside our undrawn $1.5 billion revolving credit facility, gives us a strong liquidity position.

Taken together with leverage of 2.4x EBITDA on a net basis and 3.4x EBITDA on a gross basis, we remain well positioned to continue to fund important innovation in biopharma.

My final slide provides our 2021 full-year guidance. We now expect Adjusted Cash Receipts to be in the range of $1.94 billion to $1.98 billion, an increase from our previous guidance.

Our new adjusted cash receipt guidance represents an increase of between 8% to 10% over the $1.8 billion we delivered in 2020 and reflects a number of pushes and pulls. In particular, this raised guidance reflects the new royalty acquisitions Marshall spoke about as well as the strength of our portfolio, offset by declines in HIV that were more substantial than we initially expected. We are quite encouraged to see that despite headwinds within our HIV franchise, which we do not expect to be a contributor to our business beyond 2021, we are still able to increase guidance to year-over-year growth of 8% to 10%.

Looking forward to the second quarter, we expect Adjusted Cash Receipts, excluding new investments, to be at a similar level as the second quarter of last year.

Turning to operating costs. We expect these to be approximately 9% to 10% of Adjusted Cash Receipts for the year, which is unchanged from our prior guidance.

Consistent with our standard practice, 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 Legorreta - *Royalty Pharma Plc - Founder & CEO, Chairman of the Board*

Thanks, Terry. So in conclusion, we're experiencing a really strong start to the year. We continue to be very excited about the growing role of royalty funding to advance health outcomes for patients globally as well as the powerful dynamics in our business.

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

George Grofik - *Royalty Pharma Plc - Senior VP, Head of IR & Communications*

Thanks, 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 Christopher Schott with JPMorgan.

Christopher Z. Neyor - *JPMorgan Chase & Co, Research Division - Analyst*

This is Chris Neyor on for Chris Schott. So first question is a high-level one on inflation. How does the potential for higher inflation impact Royalty Pharma's business model going forward? And specifically, how do you view the balance between the cost of funding for future transactions and the potential for lower sector valuations?

Second one is on synthetic royalty deals. Royalty Pharma introduced synthetic royalty deals several years ago and has completed several transactions, but this remains a fairly small portion of the royalty market overall. How much of these transactions are you -- do you see as part of your business mix going forward? And how much traction have you received negotiating synthetic royalty deals with your potential partners?

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

Terry, would you mind taking the first question and maybe Marshall can take the second one?

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

Yes. And maybe before I answer the first one, I just -- could you just sort of clarify the question? I want to make sure I understand the question.

Christopher Z. Neyor - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. So with the higher inflation, we're seeing the potential for kind of a negative impact on sector valuations. So we're just -- I'm just trying to think through all the pushes and pulls on Royalty Pharma's business model and what impact inflation may have on your business going forward?

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

Okay. Understood. So yes, others could weigh in as well. But I would say our view is if valuations across the sector are impacted by higher inflation, then that could actually increase our opportunity set as companies look for alternative ways to fund themselves beyond just the traditional equity capital markets. We think that, that could actually enhance our business.

Marshall Urist - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments*

On the second half of your question on synthetic royalties. So yes, thanks for the question. We -- as we talked about in the past, we are really excited about the potential for synthetic royalties as a new and ultimately important way of funding drug development and innovation in our sector. We are very active there and expect it to become an important and increasing part of our business over time. I think as you've seen in the past, we do have a very high bar when we look at new opportunities and we're going to maintain that going forward.

So I think it's exciting. We are seeing a lot of traction there actually. And I would -- I would remind everyone, our last transaction there with BioCryst at the end of last year, Orladeyo's launch there is off to a great start. So we think the BioCryst team is doing a great job with that launch. And I think you'll continue to see us do those deals in the future and continue to add to our portfolio through synthetic royalties over the coming years.

Operator

Our next question comes from Geoff Meacham with Bank of America.

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

Just have a few. The first one is, how much of a contributor can the MSCI collaboration ultimately be? I just want to know if you guys have any more detail about how it could generate cash for Royalty.

And the second question is, Terry, you mentioned that the HIV erosion was worse than you guys originally modeled. I know you typically look at consensus numbers for each product. But going forward, are there additional analyses that you could conduct? I'm just trying to think of all the inputs and outputs to what you guys provide as guidance and how that could be enhanced.

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

So I'll take the first question, Geoff. Thank you for the question, and good to hear you. And I think just very briefly on HIV, I mean, this is the end of this investment. So it really is not going to drive much regarding the future, but Terry can give you more information there.

So regarding MSCI, if I step back a little bit, just from a big picture perspective, let me just mention a few things. One is it's a business that I've followed for decades because I know well -- have a relationship with the Chairman and CEO of decades. And I recall in conversations with him many years ago where I said to him, I think your business is really, really interesting because if you think about it, the index is really- what they produce is royalty on global assets under management. The way index creators and publishers, MSCI being, in my view, the most creative of the 3 big ones, the way they get compensated is that all of the asset managers that license their indexes pay them basis points, 3, 5, 6 basis points, on the assets managed by the specific fund.

So if you have Capri, Fidelity, Amundi that is licensing those indexes, they would pay MSCI basis points, as I said, on their assets under management. And if you think about it, over long periods of time, assets under management grow. They could fluctuate from one quarter to the other because of the volatility in the market, but if you look over a 5-, 10-, 20-year period, there's obviously significant growth in assets under management. Why? Because economies grow, people save more. So it's a very interesting dynamic there.

And I recall in our conversation with Henry, I said to him, "I love your business. You really have this royalty on global assets under management." So that relationship continues. He's obviously on our Board now. But a year ago, we started to discuss about the opportunity in life sciences because it's an incredibly important part of the world economy and maybe broader than life sciences or health care and growing and highly complex.

If you just take biopharma, for example. We have the big pharmas, there's an index there and we have biotech also with an index in biotech. But it's probably, as far as it goes. There might be 1 or 2 other small indexes that are maybe not that common or investors don't pay too much attention to. But if you think of biotech, with more than 8,000 biotech companies and 3,000 that are public, highly complex, you have companies that focus on 1 product and they might be in oncology or in multiple sclerosis companies that have technology platforms, either gene therapies, or you name it, it's highly complex. So it's very difficult for investors really to understand how to invest in biotech. Obviously, they do it by investing in mutual funds.

But if you then look at indexes and life sciences -- so if you look at indexes in general, we all grew up with indexes that were sector indexes like utilities, banks, insurance companies. And a very interesting new trend, recent trend, is indexes that are thematic where investors can invest based on a specific theme they like.

And when we saw this in life sciences, we just thought that there was just an incredible opportunity to start to create indexes that would actually track better what's going on in specific themes within life sciences. So you could create an oncology index. You could create an early-stage biotech index where investors could invest in early-stage biotechs that offer huge upside potential but are risky. And if you do it by investing in an ETF that gives exposure to early-stage biotech, it's much more interesting, safer than actually picking 1 or 2 stocks where it could be tough and you could lose money. So -- and if you just think about it, we could create indexes that maybe track Chinese companies, indexes that are going to track other aspects. It could be a CRO index or a hospital index.

So from our perspective, at Royal Pharma, what's so interesting for us is that we're going to apply our knowledge built over decades, the knowledge base and expertise we have, and just monetize it. Create from that knowledge that we already have, we're going to create a revenue stream for us. That is really a royalty on investments in life sciences, global assets under management, investment in life sciences linked to these indexes.

And it's going to be a sharing of the top line. We're going to get a percentage of the top line, but it's not quite sort of 50-50 because, obviously, we recognize that this is a very significant business for MSCI. And it's actually -- they have all of the infrastructure worldwide to distribute these indexes. But it's a decent-sized royalty, not far from an equal sharing. So it's very exciting to us.

It will start low. But if we look into the future, maybe 3, 5 years, 10 years from now, I think it will be an important revenue contributor.

And another really important thing is that it's actually -- the cost for us is very marginal because we're already -- we have a lot of this knowledge. We're actually investing in -- with a new group that we created, the Strategy and Analytics group, trying to even enhance more our knowledge base. So for us to actually provide this and the service we need to provide and the collaboration with MSCI, it's going to be $0.5 million, $1 million incremental investment, which is well worth it.

And maybe just to finish, to give you a sense of why this is exciting. If we look at all of the disruptive technologies that are changing the world, and here, I'm talking about technology in general, soft -- Internet, all of the things that we always talk about, but also biotech, very important, it is estimated that the creation of value, if you look at the market cap created by all of these disruptive technologies, which is about $10 trillion in 2020, it's expected to get over $60 trillion in additional market cap created. All of the new companies that end up going public and then achieving nice growth, this is expected to get up to about $16 trillion by the mid 2030s.

And if we look at thematic investing, it's already a $400 billion market where you have about $100 billion invested in ETFs and $300 billion invested in mutual funds. So -- and that is growing very fast. It was about $150 billion in 2015, and it's $400 billion in 2020. So that gives you a sense of the growth opportunity.

And I hope that answers your question, Geoff.

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

And then, Geoff, on HIV and how we think about consensus, we still do feel generally pretty comfortable with using consensus for sort of the guidance that we provide.

HIV is a little unique in that there's sort of 2 factors. There's net sales of the Gilead products, but then there's also the percent of the sales that is attributable to emtricitabine. And that's actually the part that actually came in much lower than we initially anticipated.

But as Pablo mentioned, HIV has been an amazing investment for us, but it's not a part of our future. And we're really encouraged to see that the growth across the rest of the business more than offset those substantial declines within HIV.

Operator

Your next question comes from Terence Flynn with Goldman Sachs.

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

I had one on Trodelvy. There's been some discussion recently about the impact of prior CDK4/6 treatment that could have on efficacy of the drug in the ongoing HR-positive Phase III trial. In the -- if you look back at the Phase I/II data in HR positive, there is a bigger benefit for the drug in people that were naive to CDK4/6 versus those that were previously exposed.

So just wondering, Marshall, if you could comment and if you have any perspective on this trial as I know it's a pretty important growth driver for the future opportunity here.

Marshall Urist - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments*

Sure. So on Trodelvy, thanks for the question. We've certainly been following the -- following all of the kind of debate out there. And it's certainly interesting.

I'd say bigger picture first, just bigger picture, taking a step back, we think Trodelvy is an exciting and going to be and is and will be an important therapy, and certainly, HR-positive is one aspect of that. But if you think, taking a step back, there's a lot more there in terms of growing within triple-negative as well as bladder and then other indications. So this has been a real kind of win-win for us in terms of adding this to our portfolio, in terms of a great example of the power of the synthetic royalty transaction.

That being said, with respect specifically to the HR-positive trial, we have -- we know what you guys know about this. So I think we're following this and look forward to the readout this year. Gilead, obviously, took a close look at this, I think, as they have talked about and has powered the trial adequately for what will hopefully be a positive readout later this year.

So I think something that is interesting. But regardless, we think there's a lot of growth in future for Trodelvy.

Operator

Our next question comes from Greg Gilbert with Truist Securities.

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

A couple of strategy questions. You've made it clear that you would continue to consider development-stage deals for products in pipelines. But what's your appetite to invest in earlier-stage, but maybe more platform-oriented technologies that could later spawn multiple products in multiple areas where you're not sure what those areas or products are yet?

And then back to the MSCI arrangement, really interesting announcement there. Are there other themes under consideration in the near term or is the goal to sort of observe these 2 and see how they go? But maybe as an offshoot of that, is this effort potentially helpful to your core business in sourcing new deals unrelated to the MSCI collaboration?

George Grofik - *Royalty Pharma Plc - Senior VP, Head of IR & Communications*

Pablo, are you on?

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

Oh, sorry, sorry. I was muted. So Jim can provide the answer to the question related to the early-stage investments. And I'll answer your question about MSCI.

So I think what this really shows is how Royalty Pharma's model is actually not constrained. We can be creative and look for ways to actually creating new sources of revenue like we have with this MSCI collaboration. And I think there could be other things that, over time, develop like this that could create sources of revenue.

For us, it's interesting because it will give us potentially an exposure -- economic exposure to other parts of life sciences where we are not likely to invest in. So the focus, as you know, is therapeutics. We can and probably will, over time, invest in other things that are not therapeutics like it could be diagnostics and devices. We're very careful there because we want to make sure that these assets have very long life cycles, which is an important thing, which therapeutics do have. But we will also potentially -- we're able to create indexes that are going to track those things like devices and diagnostics. But also, as I said, could be an index for CROs or other things. So that's obviously in the index category, but there could be other things.

And maybe just one other thing that occurred to me, just to give people a sense of the economics here. So if you have a fund that has $10 billion of assets under management and MSCI is going to charge somewhere between 3 and 6 basis points, it generates $3 million to $6 million of revenue per year. Now if that fund doubles or triples over time, the revenues will double or triple.

And I think what's also very interesting for us about this is that it's perpetual. As you know, the royalties that we invest in have a life of 10, 12, 15 years, sometimes a little bit more, but they expire and we need to replace them. In the case of the indexes, this is perpetual. It will go on for many -- forever.

So with that, I'll turn it over -- I'll turn it back to Jim to give you a little bit more perspective on our strategy regarding earlier-stage investments.

James Reddoch - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments and Chief Scientific Officer*

Greg, thanks for the question. Yes, it's a good question on going earlier stage and looking at whether there are opportunities to invest in platforms and potentially bring in multiple products at a time. I do think that over the years, we've demonstrated that we're creative and really kind of pushed the envelope in the royalty industry for going earlier and finding ways that are risk-aware to go into earlier stages of development. We kind of pushed the envelope into pre-approval. We've since then done products that are even pre-Phase III in a smart way and gotten returns on those.

We actually made an investment just recently as part of the Orladeyo investment, we made an investment in BioCryst Factor D drug called 9930, which was in Phase I/II right now. So that's an example of us going early as a part of a larger deal.

So there are a variety of creative structures that we're looking at right now that can give us some exposure to exciting new platforms and modalities and perhaps kind of groupings of products. So I think that -- we'll just leave it at we're exploring those as a way to keep the opportunities coming. But we do think it's a good thing for us to be apprised of.

And actually, part of the reason that we wanted to form the Strategy and Analytics team is to make sure that we're using data in the best way to make sure we know where all the promising opportunities are and to really kind of be mining opportunities earlier than we would before as a way of, a, following them from an earlier stage, but b, seeing if there might be opportunities for us to invest earlier.

Operator

Our next question comes from Kathy Miner with Cowen and Company.

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

Just a couple. First, could you just clarify on the HIV that the royalty expires this year or is it sometime during the year? And are there any other notable royalties that expire during 2021?

Second question is on the Adjusted Cash Receipts guidance that you gave. You said the increase was based both on the existing portfolio and on some of your recent additions. But is there also any change in your expectations for distribution?

And the last question is a little more big picture. Do you expect drug pricing reform to increase or decrease the number, magnitude and potential of royalties?

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

Terry, can you take the questions, please?

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

Yes. So on your question on HIV, what we've said is that we expect it to substantially end in 2021 and we have not been more specific than that.

Your question on distributions as it relates to Adjusted Cash Receipts, I assume you're referring to the distributions to noncontrolling interest. And in the back of our deck, we actually lay out what those different noncontrolling interests are -- or were for the quarter. And so that's a pretty good guide for you for how to think about what they'll look like going forward.

And then your last question was on drug pricing. And I think that Marshall is probably the best person to answer that one.

Marshall Urist - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments*

Sure. Thanks, Terry. Thanks for the question on this. So specifically to your question of how we think what the outcome of -- what may happen on the drug pricing front could impact our opportunity set for royalties, and regardless of what happens, I think we are very optimistic about the size of our market, the number of companies that are going to be looking for potential funding.

I think certainly we're all watching what is going to happen in Washington and all of the stops and starts and puts and takes that we've seen. But I think we would -- we're focused on 2 things. One is, I think in terms of our current portfolio, we are -- we have a portfolio that's highly diversified across products, therapeutic areas, marketers, geographies, payer types, all different types of diversification. And we've really focused on important drugs that are -- that really impact patients' lives. And so regardless of what happens, I think we feel good about where our portfolio stands now.

I think looking forward, we really don't think that whatever happens will meaningfully impact the number of new opportunities for us. When you look at the rate of company formation over the last few years, we see that as a really encouraging leading indicator of the number of companies and the number of opportunities for us, the amount of innovation, how much is happening right now. We think those are all kind of overwhelmingly positive in terms of how things may look going forward.

So I think, certainly, for all of us who have been around the industry for a long time, we are continuing to follow what's happening on the policy front. But we think all the positives and tailwinds for our business are -- remain and will remain in years to come.

Operator

Our next question comes from David Risinger with Morgan Stanley.

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

Yes. Thank you for the comprehensive update. So I have two questions. First, regarding the MSCI indices global recurring revenue opportunity, could you just put that in a little bit more financial perspective? I mean it makes a lot of strategic sense for you. I think you had mentioned, Pablo, 3 to 6 basis points on assets for MSCI. What could Royalty Pharma realize? And should we think about this as being a potentially $5 million revenue opportunity in a couple of years for Royalty Pharma or a $20 million revenue opportunity? Just so that we have some context, that would be appreciated.

And then second, Vertex has been advocating at recent investor conferences that it's excited about novel cystic fibrosis candidate development, including potentially reducing royalties as part of that. Could you remind us about your position and next developments to watch.

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

Thank you, David. So with respect to MSCI, I actually would like, at this stage, to just be very cautious about the revenue contribution just because it's something totally new to us that we would like to understand better.

And we do believe that revenue contribution, this year, probably we won't get anything. Why? Because the indexes have to be created then they have to be sold to the team at MSCI and ourselves. We'll start to talk to some of the major investors in life sciences to actually see if they want to license the indexes.

But what you will start to see is maybe some of the bigger ones, a BlackRock or Amundi or others, they might create an ETF. If we launch an oncology index, an oncology ETF or we launch an early-stage biotech index, maybe an early-stage biotech ETF and then mutual funds. So it will take time. And I even think that the revenue next year is going to probably be very small because, again, it's all in the launch phase.

But at some point, this will gain momentum. And if you just look at the fact that today there's $400 billion invested in thematic indexes already, $100 billion in ETFs and $300 billion in mutual funds, and a lot of that is technology because there's really -- life sciences is behind. It hasn't really happened.

So could that $400 billion grow over the next 10 years to $1 trillion? I think it will, probably. And what share of that is going to be life sciences? And then you have to sort of go through the economics that MSCI will get and then what we will get.

So I think this is something that looking in sort of the second half of this decade could become important. But maybe as time evolves and we get a better sense of how this could grow, we could be a little bit more specific.

At this stage, I am very excited because it not only shows what we can do with the Royalty Pharma model in things that were totally unexpected. I mean nobody thought of this, had it in their model. So it's potentially something new for us.

And it also will benefit -- I mean, there was a question before about whether this will benefit our core business. And absolutely, it will. Why? Because in that effort of us really looking into life sciences and trying to look in on 3, 5 years as to what are going to be the important therapeutic areas and we'll also start to look at the companies that are starting to invest in that, many of which may have things in preclinical. But if you start to look at those companies and track them through an index and you start to see how the value creation begins or how capital is shifting from -- into those areas, it will give us a feel for that.

And just as an illustration. I mean things that -- a Chinese biotech, for example. We looked at it last fall as we were starting to talk to MSCI about this. And I was blown away to realize, we -- myself and the team have been going to China in the past years to try to explore if there's anything for us to do in that market. And I was blown away last fall when I checked the market cap of Chinese biotech, and it was about $700 billion. And I think it went, those guys, maybe $1 trillion. And there's about 800 Chinese biotech companies that are public, 800 biotech companies, which is a very significant number.

So it gives you a sense of what's going on in other markets, and it will help us at Royalty Pharma to make sure we're really understanding the space in a very deep way and we can understand the trends better. So that's additional perspective that I wanted to provide.

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

And then, Dave, on your question on the cystic fibrosis franchise. We've certainly heard comments from Vertex about future potential combinations and potential lower royalty rates on those combos. Our position's unchanged. So as it relates to any combination that includes deuterated Kalydeco, our position is that deuterated Kalydeco is simply Kalydeco and Kalydeco is a collaboration compound that's royalty-bearing.

And with regard to any other components of combination products, I think there's a number of factors to consider. So which components are they? And are they royalty-bearing? And at what level? And then as those combos move forward, it's time to enroll the clinical trials in a population that is, at this point, pretty well served. And then the success and timing of potential regulatory approvals and then ultimate uptake versus Trikafta, which is a pretty remarkable drug for CF patients.

So our view is we expect CF to be a very important contributor to our business for many years to come. And in the meantime, we're going to keep focusing on executing our business plan and adding innovative new therapies to the portfolio.

Operator

Our next question comes from Umer Raffat with Evercore.

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

This is Mike DiFiore in for Umer. Just two for me, just to piggyback on the previous question before on Vertex. They've, again, recently been very clear that what their next-gen triple combo may be and that Phase III is going to start this year.

So my question is, given that things are starting to be more definitive, has anything changed regarding Royalty Pharma's long-term outlook and potential or willingness to do earlier-stage deals just given the more certain step-down in future royalties.

And secondly and separately, just the oral CGRP market outlook, especially with AbbVie's recent atogepant data in preventative migraine. What your -- has your outlook changed regarding the implications for Biohaven's future royalty potential?

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

Thanks for the question, Mike. Terry, can you take the CF question; and Marshall, the migraine CGRP question.

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

Yes. Mike, I think, to be honest, I think it's really premature to be talking about any changes to our long-term outlook. I think what I just said holds, we feel really confident in the long-term performance of the CF franchise. As other products come along, it's all going to be sort of case-dependent. But they are going to have to compete against Trikafta, which again is a great drug and we're entitled to very attractive royalties on Trikafta.

And then would it change our strategy? No, absolutely not. I think we're going to keep doing what we've been doing and keep reinvesting in what we think are the most exciting wave of new products in this industry. That's the plan, and that's what we're going to stick to.

Marshall Urist - *Royalty Pharma Plc - Executive VP, Co-Head of Research & Investments*

Thanks for the question on the CGRP class. So I think there's multiple aspects to it of what you're raising. I think at a high level, we are excited by what we're seeing on the oral CGRP market in terms of the market uptake and the success that Biohaven and AbbVie are having there. And I think we've heard AbbVie on prior conference calls this quarter and prior ones really express their enthusiasm and excitement about the potential for, potential of this category. And we are certainly excited to be a part of that with Biohaven.

I'd remind you that we have multiple avenues of exposure to this market. Certainly, Nurtec ODT in the acute market is part of it right now. Biohaven has the filing to have the first ever dual label for acute and prevention, and the PDUFA for that is coming up. So we think that's interesting.

And then would remind you, too, that we did a -- of our deal with Biohaven from last summer to support the zavegepant development program, and they are also exploring oral zavegepant in the prevention market as well. So we think it is an exciting category, and we're excited to have kind of multiple ways that we can participate in that.

Just lastly, I think it's a -- this also highlights an exciting aspect of the Royalty Pharma business model in that we can have multiple ways to play or participate in an exciting class like the CGRP. So we also have a royalty on Lilly's Emgality and then also on multiple of the oral CGRPs, which we think is a pretty unique aspect of our business model, that we see a class in a market that we like and has a lot of potential. And I think certainly, the early launch of the oral CGRPs are bearing that out, that we have the strategic flexibility to be involved in that in multiple ways.

So we're excited about the outlook for CGRPs and look forward to seeing that play out in the coming years.

Operator

And our last question comes from Andrew Baum with Citi.

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

Global system shocks such as the pandemic seem to be reshaping the relationship between governments and the industry in a number of dimensions. You've already addressed drug pricing, but if you look at IP in light of the comments on vaccine waivers and also tax, you can see how there may be increased risk compared to what we might have envisioned previously.

How do you think about those individual characters in terms of the risk for your operating model going forward? So that would be the first question.

And then the second question is, there has been an increase in the number of competitors in your space. So Patient Square, so ex-KKR executives that moved into your space. They're not just doing royalty, they're doing SPACs as well. How are you looking at the competitive environment and confidence that your motor cash flows gives you in terms of continuing to secure the most attractive assets?

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

Yes. So maybe Chris can take the first question.

With regards to competition, in fact, all of the SPACs that have been created that, and there's many of them, that are investing in sciences, I see those as actually additive to our effort because what's happening there is that there's a ton of capital that actually has been raised by the SPACs that are focused in life sciences, many billions of dollars. And again, that's going to fund private companies, give them the capital they need to continue to invest in research to bring products forward. And eventually, they could become partners of ours, companies that we could partner and collaborate to help them eventually bring products to market. So I think the more capital that is invested in life sciences, the better.

And one other comment to make about this new index collaboration. I was -- in a conversation I had with the MSCI team, the Chairman and CEO mentioned that in the conversations they've had with world governments, World Bank, how capitals flow around the globe in the investment community. And when markets open and here markets not only geographically, but also think about it from an industry perspective, the fact that MSCI creates indexes attracts many billions of dollars of capital into that space.

And I gave the example of maybe an early-stage biotech index or an oncology index or you name it, it can be many others then what is likely to happen over time is that as products are created like ETFs or mutual funds to focus on that specific theme or new market, capital flows and then companies end up getting additional capital to fund their research.

So it's a very interesting phenomenon, but one that -- like this whole -- the development of thematic indexes and life sciences is going to make the whole life sciences investment opportunity more understandable, more accessible to investors, and this will attract capital. So it's quite interesting from that perspective.

And I think it -- so I'll let Chris answer the other question about impact to life sciences from big trends.

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

Sure. Thanks, Pablo. And Andrew, thanks for the question. I think as it relates specifically to the intellectual property waiver, we don't see that as something that's going to impact our business long term. I know the idea has been floated, and obviously, there's global pandemic. And from a compassionate perspective, you want to get as many vaccine doses around the world as you possibly can and there's probably more efficient ways, actually just transfer excess doses once the supply is there as opposed to trying to waive intellectual property. And with know-how, obviously,

these vaccines are very difficult to make, to manufacture. So I think it's probably more efficient ways to get the vaccines around the world than just waiving intellectual property. We don't see the need for compassionate use right now as impacting intellectual property laws going forward. So we don't see that as impacting our business going forward.

Operator

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

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

Sure, operator. Thank you. Thank you to everyone on the call for your continuing interest in Royalty Pharma. My team and I look forward to continuing to share our progress with you.

If you have any follow-up questions, please feel free to reach out to George. And thank you for joining the call, and I hope everyone has a good week. Thank you.

Operator

Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a great day.
