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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Fourth Quarter 2020 Financial Results Conference Call.

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

George Grofik *- Royalty Pharma plc - Senior VP, Head of Investor Relations and Communications*

Thank you, operator, and good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's fourth 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, uncertainty and other factors that may cause actual results to differ materially. I refer you to our S-1 prospectus on file with the SEC for a description of these risk factors.

And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, Founder and Chief Executive Officer; Jim Reddoch, EVP, Co-Head of Research and Investments and Chief Scientific Officer; Marshall Urist, EVP, Co-Head of Research and Investments; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights. After which, Jim and Marshall will provide an update on our royalty acquisitions. 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. 2020 was truly a landmark year for Royalty Pharma. I want to start by focusing on the highlights of the incredible year for our company.

First, we strengthened our capital base and our access to future capital through our successful IPO and bond offerings. With our balance sheet strengthened and with our ability to rapidly de-lever, we're in a very strong position to execute our strategy.

Second, we further expanded our Royalty portfolio with 8 announced acquisitions totaling $2.4 billion, maintaining our market leadership and enhancing the outlook for our adjusted cash receipts. These royalty transactions span multiple therapy areas but have one thing in common, they are associated with potentially transformative medicines, and we're very optimistic about their patient benefit as well as their commercial value. Terry will discuss how this impacts our long-term outlook later on in the call.

And lastly, we have navigated this complex and busy year while delivering double-digit bottom-line growth and building the organization to strengthen our market-leading position. We have made a number of senior-level hires, expanded our Board of Directors and started an important new strategy and analytics initiative.

On Slide 7, you can see our financial results for the fourth quarter and full year. In the fourth quarter, we delivered 9% growth in adjusted cash receipts, our top line; and 22% growth in adjusted cash flow, which is our bottom line. This excellent momentum puts us in a great position to deliver another year of strong performance in 2021, as Terry will discuss in a bit.

For the full year, our top line growth was 1% and bottom-line growth was 15%. When thinking about our adjusted cash receipts growth, keep in mind that we had a large payment for Tecfidera in 2019 which affected year-over-year comparisons in the first quarter but has no further impact. Excluding Tecfidera, our adjusted cash receipts would have grown at 9% for the full year.

So overall, I am delighted with our progress in 2020, and we're very confident in our long-term outlook. With that, I will hand the call over to Jim and Marshall to update you on our Royalty portfolio.

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

Thank you, Pablo, and good morning, and good afternoon, everyone. As shown on Slide 9, 2020 was a record year for biopharma royalty funding. Based on our market intelligence, we believe there were 23 major royalty transactions in the year with a combined value of $5.4 billion. Inevitably, there is some volatility in the trends from year-to-year. However, as an indicator, the 2020 transaction counts and value figures are more than double the average of the preceding 5 years, and each represent record highs.

In short, the market is growing significantly, and we are confident that the tailwinds supporting this growth will continue for the foreseeable future. These tailwinds include the fast-growing demand for capital from the biopharma industry, the extraordinary pace of innovation taking place across the entire life science ecosystem and the secular trends driving increased biopharma market sales.

Slide 10 illustrates our transaction funnel in 2020. During the year, we received more than 265 potential -- we reviewed more than 265 potential transactions. This in turn led to around 70 CDAs being signed and 38 proposals being submitted. Ultimately, we announced 8 transactions for a total value of $2.4 billion.

The math shows that we transacted on just 3% of the royalty opportunities we initially reviewed. This speaks to both our ability to execute on promising royalty opportunities and to the intense level of scientific diligence and financial discipline we apply in the process. The rigor of our approach is part of our unique skill set and is a key reason why Royalty Pharma has delivered and continues to deliver attractive returns to our investors.

Slide 11 provides an overview of the 8 transactions I just referenced. We are excited that these encompass a range of transformative therapies across 5 therapeutic areas. Of the 12 royalty-bearing products included in these transactions, 9 were for approved therapies and 3 were for development-stage therapies at the time the deals were signed. The products we added to the portfolio spanned 5 therapeutic areas, including rare disease, cancer, neurology, GI and infectious disease. This speaks to the unique approach that we take in adding high-quality assets to our portfolio regardless of therapeutic area.

One notable development-stage deal that we completed in 2020 was for the exciting SMA drug, Evrysdi. Around a month after we acquired this royalty, Evrysdi was subsequently approved and launched by Roche, again underscoring the high level of due diligence that we apply in our process.

Looking ahead, the Street expects a number of these medicines to become blockbusters in the next several years. And we estimate, based on consensus analyst forecasts, that these transactions will add more than $400 million to our adjusted cash receipts by 2025.

And with that, I will hand the call over to Marshall.

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

Thank you, Jim, and hello to everyone this morning. Turning to Slide 13. Let me start by highlighting that 2020 was a strong year in terms of the scale of royalty acquisitions and builds off of a similarly strong year in 2019. In fact, if we look over the past 2 years, we announced 14 transactions totaling approximately $5 billion. As a result, we have significantly expanded our portfolio of innovative therapies with long-duration patents, further diversifying our revenue mix, and we are confident that we will generate returns consistent with our targets.

On this slide, you see a summary of our recent portfolio additions since last quarter's call, adding 1 approved product and 2 development-stage therapies. In December, we acquired a royalty from BioCryst in Orladeyo, the first oral therapy for hereditary angioedema. ORLADEYO was recently approved in the U.S. and Japan, and a European approval decision is expected in the second quarter of this year. As an oral agent, we believe Orladeyo will expand options for patients, bringing greater convenience and potentially expanding the use of prophylaxis in this serious disease.

The $125 million we provided to BioCryst will be used to support the launch of Orladeyo as well as to fund development of their oral factor D inhibitor, BCX9930, in complement-mediated diseases. In return, Royalty Pharma is entitled to 8.75% of sales of Orladeyo up to $350 million with step-downs above this up to $550 million. We will also receive a 1% royalty on sales of BCX9930 if commercialized. We look forward to seeing the progress of BCX9930 during 2021. This is a great example of the type of nondilutive deal structure we are able to offer to our partners, in this case, to a biotechnology company to facilitate pipeline expansion and the transition to a commercial company.

Now moving to our most recent portfolio addition. We announced in January the acquisition of Minerva Neurosciences' royalty interest in seltorexant, a compound which is in Phase III development by Johnson & Johnson for the treatment of major depressive disorder with insomnia symptoms. In return for an upfront payment of $60 million and up to $95 million in additional milestone payments, we are entitled to receive a mid-single-digit royalty on worldwide sales of seltorexant.

We are very excited by this opportunity as seltorexant is potentially the first medicine to address this important unmet need in patients suffering from depression. And while this is a therapy that potentially sits at the higher end of the clinical risk spectrum for us, our extensive due diligence provided significant comfort on the clinical profile based on strong proof-of-concept data to date. This included 4 placebo and active controlled efficacy trials that demonstrated consistent safety and efficacy.

So to summarize, 2 very different partners which take us into new therapeutic categories, and each with the potential to bring important innovation to patients.

And with that, I'll hand it over to Terry.

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

Thanks, Marshall. Let's move to Slide 15. We had another good quarter with total royalty receipts up 9% compared to last year's fourth quarter on a pro forma basis. On a full year basis, growth of 2% reflected our final receipt associated with Tecfidera of $150 million in the first quarter of 2019. As you can see, royalties from our largest franchise, cystic fibrosis, grew 37% this quarter and 30% for the full year, driven by the strong launch of Trikafta in the U.S. and Kaftrio in the EU. Imbruvica, Xtandi and Promacta also contributed strong double-digit growth, both for the quarter and on a full year basis.

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 is what we view as our top line, and it amounted to $484 million in the quarter, representing growth of 9% compared with last year's fourth quarter on a pro forma basis.

When we move left to right, operating and professional costs of $50 million equated to 10.4% of adjusted cash receipts. This was somewhat below the level of the third quarter, which included certain expenses related to our IPO and bond offering. R&D funding remained at a relatively low level and substantially lower than in the year-ago quarter given larger ongoing development-stage funding payments in 2019.

Net interest of just $1 million was sharply lower as it reflected the debt refinancing and a shift to semiannual interest payments arising from our bond offering. The next interest payment will be in March of this year. Interest paid in Q4 would have been $33 million if our interest payments were paid quarterly instead of semiannually.

The other item of $9 million includes expenses related to our investment in nonconsolidated affiliates, primarily a funding payment to Avillion for ongoing development of AstraZeneca's PT027. This resulted in adjusted cash flow, our bottom-line earnings, of $423 million or $0.70 per share. This translated to an adjusted cash flow margin of 87.3%, highlighting the very strong cash conversion in our business model.

Looking at our balance sheet on Slide 17. We ended 2020 with cash and marketable securities of $2 billion. The increase over the year was driven by the adjusted cash flow I just mentioned, together with the proceeds from debt refinancings of $728 million and IPO proceeds of $1.9 billion. Cash outflows over the period amounted to $2.5 billion, primarily resulting from the $2.2 billion in capital deployed on royalty acquisitions.

Turning to our dividend. We recently announced a 13% increase in our quarterly dividend to $0.17 per Class A ordinary share, which signals our confidence in our growth outlook. We finished the year with $6 billion of investment-grade debt, which, combined with our $1.5 billion revolving credit facility, gives us a strong liquidity position. With leverage of 2.4x EBITDA on a net basis and 3.6x EBITDA on a gross basis, we remain well positioned to execute on our business plan.

On Slide 18, we set out our full year guidance for 2021. We expect adjusted cash receipts to be in the range of $1.91 billion to $1.96 billion. As you know, our practice is to guide based on our portfolio as of today. And importantly, this does not take into account any future acquisitions. This guidance represents an increase of between 6% and 9% for our existing portfolio only.

Turning to operating costs. We expect these to be approximately 9% to 10% of adjusted cash receipts.

Lastly, we expect interest paid will be approximately $130 million for the year. Based on the semiannual interest payment schedule for our existing bonds, interest paid is anticipated to be approximately $64 million in the first and third quarters with a de minimis amount recorded in the second and fourth quarters. This projection assumes no additional debt financing in 2021.

Turning to my final slide. In August, we stated that our objective was to maintain a long-term compounded annual growth rate in the range of 6% to 9% from 2020 to 2025. Today, we are increasing this outlook to a compounded annual growth rate in the range of 7% to 10%, which is off of a higher base in 2020 than was expected when we first provided this outlook.

The increase in our long-term outlook is due to a couple of important factors. First, our existing portfolio is performing quite well, and we now forecast it to grow in the mid-single digits. And second, our confidence in the growth of the royalty market and in the sustainability of our leadership position has increased with the multiple tailwinds we see and with our strong overall performance in 2020.

With that, I would like to hand the call back to Pablo.

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

Thanks, Terry. Let me quickly close by saying that I'm more confident than ever that Royalty Pharma is well positioned to continue our leadership of the rapidly growing market for biopharma royalty funding. With our strong 2021 outlook and our raised long-term guidance, we have many exciting years ahead. This is a remarkable time in the history of our industry with incredible innovation and groundbreaking therapies that are changing the lives of patients globally. Royalty Pharma is uniquely positioned as a levered play on the innovation in life sciences.

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 Investor Relations and Communications*

Thank you, Pablo. And we'll -- operator, we'll now open the call to your questions. Operator, please take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Steve Scala with Cowen.

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

Congratulations on a great 2020. For deals that Royalty Pharma considered but did not do in 2020, what was the most frequent reason? Was Royalty Pharma not sufficiently comfortable with the risk involved? Did a competitor offer more attractive economics? Or was there some other reason?

I assume risk and economics always go hand-in-hand. So how do you know you have the optimal balance? And how might that balance change in 2021?

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

Sure, Steve. So I'm going to ask Jim to add to maybe some initial remarks. But I think, as you probably have heard us already explain in the past, we -- a lot of the sort of thing that drives our evaluation of transactions is just a huge amount of discipline. Because over 2 decades of investing, we've actually looked at so many things and many of which we have passed on and many that we've done. But also, we have the experience of transactions that we did that didn't work out. And we always try to learn from those and understand what happened that didn't -- what part of the thesis was incorrect and then try to apply that in the future.

It's not always easy. It's difficult, actually, -- because what's also so interesting in this industry is that every opportunity is different in life sciences, right? Every product is different. The clinical program is different. The size of the market is different. The competitive landscape is different. In some cases -- in many cases, we have unique products with very little competition; but in others, there's more competition. So there's many, many factors that we have to take into consideration.

But always, discipline is key. And I always tell the team making a bad investment is very, very difficult. Very painful to correct the impact of a bad investment. So it's always trying to find that balance of very attractive underlying attributes that the products have with very attractive upside and also understanding the downside well, understanding where things could fail.

Well -- but Jim, do you want to add to what I just said?

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

Yes. Thanks, Steve. I mean, I think that you mentioned a couple of things: risk and economics and occasionally competition. But I would add to that, and it's really a mixture of all of these that, in some cases, the target company that we're speaking with was acquired or ends up doing a different flavor of financing or, in some cases, is still considering our proposal and other proposals so it just hasn't really happened yet. So it's really a mixture of all of those.

But I'm really proud, I think we're all really proud, of generating the 260-plus number of opportunities at the top of the funnel. And I think that's really a testament to the number of parties, both corporate and academic and otherwise, that are considering royalty transactions these days because that number has growth from the previous year and from prior years.

And also that we saw 70 opportunities that were really worth going in-depth on and getting confidential information. And we want to be aggressive and putting proposals out there as well. So that -- I think that 30-plus number represents us really wanting to get term sheets out there. But in some cases, those, for reasons that we're mentioning now, don't end up crossing the finish line. But as Pablo said, we want to keep a very high bar for things that we ultimately transact on.

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

And realize, Steve, that what we invested in last year, the $2-plus billion of transactions that we did, which is -- what's great is that just looking out, these transactions will add over $400 million of revenue in the 2025 time frame with what we believe are conservative forecasts and with a good level of predictability. So that is quite a positive outcome for us based on what -- the things that happened last year. Thank you.

Operator

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

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

Just had a couple. Another one on future deals. I guess the question is, does the law of large numbers begin to apply as you continue to grow the top line? I know there are a ton of smaller deals you can do as you just highlighted on Slide 10. But I think the goal is to find perhaps another CF-type of opportunity in terms of the magnitude.

And then the second question is, Terry, what are the longer-term considerations of a rising interest rate environment? I know -- I don't know if you guys have used hedging strategies in the past, but could you deploy that going forward?

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

Chris, do you want to take the first part of the question about the scale of the opportunities we see and also some potential for big deals, maybe through M&A. And then Terry can answer the second part.

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

Sure. Thanks, Pablo. And thanks for the question, Geoff. As Jim went through the funnel and Pablo went through the funnel, we see a lot of opportunities. And we see a lot of ranging opportunities, smaller and larger. And I think even this past year, we actually did a wide range of deals, from smaller deals to a bigger deal around the CF and also around Evrysdi.

And I think one of the things Pablo just mentioned was M&A. I think we've been actively sort of having discussions around helping people around M&A situations and creating synthetic royalties there. And we sort of see that as an interesting opportunity in addition to the synthetic royalties, which is also -- we see really sort of picking up steam.

So obviously, we're looking across the spectrum for deals, and they could be small or big, but we don't see a lack of opportunity out there to grow our top line.

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

And then, Geoff, on your question on long-term rising rates. We were lucky that we were able to take advantage of the markets in the summer at very attractive -- at a very attractive time in sort of history in terms of issuing bonds. And now 100% of our $6 billion of debt is fixed. And so it's not something that we have to be as focused on in the near term.

The other thing I would say is that as our bonds have traded in the market and bond investors have gotten to know Royalty Pharma better, our spreads have tightened significantly. So the spread on our 10-year -- while the 10-year Treasury has increased, the spread on the 10-year has actually tightened by almost 80 basis points.

So I think we're -- we feel like we're still in a great position. To the extent that rates really do see a significant uptick in the long term, I also think that, that will be reflective in asset prices. And prices will be adjusted accordingly. So it is sort of a natural hedge in the way that our business works because we're constantly reinvesting in it, it would be reflected in asset prices.

Operator

Our next question comes from Chris Schott with JPMorgan.

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

Just if I look at your 2020, it was obviously a bigger year for capital deployment for the company and the broader royalty market. And I know deal flow can be choppy year-to-year, but the trend seems to clearly be moving higher here. So when I think about the longer-term guidance, I think you want to be conservative, but is there any reason we shouldn't think about capital deployment closer to range we saw in 2020 versus, I think, the roughly $1.5 billion or so that you're reflecting in that guidance? I'm just trying to see, is there any rate-limiting factors other than just finding attractive terms, whether it's capital structure, et cetera?

And then the second question I had was just on the funnel of transactions. Like you've talked about a couple of sources of deals, whether these are SMID cap, biotech, M&A, academic. Did you see the mix of those change at all in 2020 in favor of one of those, I guess, verticals versus another? Or are you seeing more opportunities as we, again, think about, I guess, biotech versus academic versus other sources? I'm trying to get a sense of how that's changing as the market evolves over time.

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

Sure, Chris. Thank you. And I think in terms of the guidance, we're a brand-new public company, so we want to be conservative. But obviously, the tailwinds are incredibly, incredibly strong for the industry in general and also for us, and specifically, based on the service that we provide, the potential solutions that we provide to many companies that require a very significant amount of capital.

And I think the sort of difficult thing to predict is, and I think there was a prior question about a deal like the CF deal that we did in 2014, which was over $3 billion, 1 transaction. And that year, we invested $4 billion. And I think in our case, it's not likely that it will be an academic royalty of that size or a foundation royalty of that size.

But where we could have a large transaction, significant transaction, would be in an M&A situation. And those kinds of transactions are obviously difficult to predict, and it's not something that is sort of the bread-and-butter deals that we can do every quarter. But I think over the next 3 to 5 years, it's likely that there will be a couple of those. At least a couple, I think. And that's the more difficult variable to predict in terms of the scale of our investment over the next 5 years or so.

But let me turn it over to Marshall now, who can provide some perspective on the funnel and where we think deals will come from.

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

Thanks, Pablo. Hey, Chris. So to your question about the kind of mix of sources of transactions. So I don't think anything has necessarily fundamentally changed in terms of the mix of sources of transactions. Obviously, that can change year-to-year. If you look at 2020, it was a good mix -- there is academic or foundation royalties there and R&D funding transactions, synthetic royalties and traditional royalties as well across the year. So there's a pretty good mix. And I think that's reflective of the underlying fundamentals of the markets we see.

I think we are, as we've said before, optimistic about the synthetic royalty opportunity and growing that business in the years to come, with BioCryst at the end of last year being a good example. So we certainly see growth in that part of the market. But fundamentally, I think you'll continue to see a good mix of different sources of opportunities for us.

Operator

Our next question comes from Gregg Gilbert with Truist Securities.

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

Going back to that funnel slide again. I was curious to what degree, either companies or collections of royalties, existing collections of royalties, factored into that funnel before. Or if any exists now.

And curious as well, Terry, I don't know if you're willing to be more specific about what specifically changed in the updated CAGR guidance. Any comments would be helpful.

And lastly, Pablo, I was hoping you could comment on how data science may inform your sourcing strategy going forward.

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

Of course. So Jim, do you want to take the question on the funnel? And then Terry will answer the second part of the question. I'll close with a comment on data science.

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

Yes. Gregg, correct me if I'm wrong, but I think your question was sort of how we count the number of opportunities and whether it's on sort of a per-company or a per-molecule basis. And I think the answer is it's a -- or the answer is that it's a per-molecule basis. So in the case of Biohaven last year, which included Nurtec and zavegepant, that would be sort of 2 opportunities that we would see. And I think that increasingly, and BioCryst is the same way, that, that also included 2 molecules.

And increasingly, we are seeing this positive trend that companies that we like and trust to really apply best practices developmentally and commercially have multiple assets that we're interested in. So I think that both of those represent times where we can kind of get 2 interesting assets in 1 fell swoop. And also start to follow these assets, the earlier assets at an earlier stage and to really get comfortable with them in an attempt to kind of grow our commitments and our financial commitment to that product over time.

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

So Gregg, on your question on sort of what's driving the long-term -- the increase in our long-term outlook. I think it's a mix. So one, we had a really good year of investing in 2020. We added a number of attractive products that are going to be contributors there. That being said, a number of them were already in sort of our initial guidance that we provided back in August.

But it's also the strength of our existing portfolio sort of broadly that is driven by, in particular, CF, Imbruvica, Xtandi, Tysabri has continued to perform quite well, and Promacta. And then also our outlook for some of the launching products, like Trodelvy and Evrysdi.

And then I think the last thing is just our confidence in the growth of the market and the tailwinds, and our ability to maintain our leadership position and continue to bring in really attractive assets. I think all of those factored in and gave us a lot of confidence that we could raise that long-term guidance, long-term outlook.

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

So to answer your question about the new initiative on sort of strategy and analytics, that is a lot of it is data science. So let me just step back a little bit and explain something. So a big part of the strength of our sourcing and evaluating of opportunities over the last several decades has been the very singular focus we have on products and in life sciences. It's all about understanding product. And the strength comes from the fact that, for example, we have a team that has been working together for a very long time. And I think Molly is close to 15 years, and Jim also. But anyway, a lot of people have been working here for a very long time.

And the fact that we can follow -- so for example, if you look at specific therapeutic areas, multiple sclerosis or TNFs or hematology, we follow these areas very closely, systematically, every quarter, looking at products that are on the market, what the reporting prescriptions, the trends, talking to the prescribers regularly over and over again over years; and understanding them, understanding how they're using the drugs and how all of that is changing.

And then obviously, all of that effort includes also trying to understand the products that are being developed and how they're going to fit into the whole landscape and how they're going to be used, and trying to then see if they're going to be important drugs, 3, 5, even 10 years out. Some of these drugs might have trials that read out many years into the future that could impact the later years in our investments. And understanding all of that is really critical. And we've done that. We've been able to do that well at Royalty Pharma.

But I think, just thinking ahead for several years, I've been thinking that we really need to take this to the next level. And now with tools that exist that are out there in terms of, like, there's databases that have patient data, longitudinal patient data, 30 million, 50 million patients that you can actually now look at and analyze that data and understand with greater detail the implications for the industry. But -- so understanding all of that in detail and actually starting to integrate it a lot more into what we do every day, I think, is going to give us an edge.

I also believe that one of the things that we're trying to accomplish with this group is to really understand clinical development of products in a very broad sense. So if you think of hematology, understanding all of the trials that are being run in all of the different settings, all of the different combinations of products that are being used in great detail.

And the reason this is important is because as we finance companies that are developing products and we have conversations with them, if we can add value to them by actually somehow influencing the clinical programs they have and, in some cases, suggesting, you may want to consider changing the trial this way because if you do that, it's going to give you a much bigger market opportunity, commercial opportunity. You're going to be able to address this unmet medical need that other products that are being developed will not address. So we can get to that level, where -- which we do -- -- we do part of that today when we're having conversations with companies when we're trying to discuss potentially funding their trials. But there's a lot more that we can do, much more refined, much more added value.

And then we can have those kinds of conversations with the hundreds of biotech companies and even big pharma companies that are out there that need capital, it's going to be a much better situation for us because by having that kind of conversation, I think, they will recognize the unique value we bring to the table, and it's going to prevent competition. They will want to work with us and not with others because of the value we add. And that should result in better economics for us, better terms, when we're negotiating a potential transaction.

So it is all about the future. It's all about understanding also what are going to be the important therapeutic areas and modalities to treat patients, not today, not in a year or 2, but 3 or 5 years from now. Because we need to start to think of how the industry is going to change and treatments are going to change in 3, 5, 10 years and get ahead of that and then make investments that are going to capture that potential upside.

Maybe I gave you a long answer, but anyway, that's the impetus of that initiative.

Operator

Our next question comes from Terence Flynn with Goldman Sachs.

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

Congrats on 2020. On the long-term guidance, I was just wondering, I know in the past, you had mentioned that half of the growth was from existing deals and half was from -- going to be from new deals. I'm assuming now that's maybe shifted where maybe over half is from existing deals, less than half from new. So just wondering, Terry, if you could provide any incremental color there.

And then a question probably for Marshall on Trodelvy. Obviously, one of the growth assets you guys have talked about, longer term. Would love your perspective on the potential for this asset beyond breast cancer.

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

Sure, Terence. So on the guidance, yes, so 7% to 10% is sort of the total number. And as you correctly pointed out, that also includes the impact of new investments. For our base current portfolio as it stands today, we expect growth in the mid-single digits. And so the rest would come from additional investments.

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

Marshall?

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

Great. So on Trodelvy, we are really excited about that. It is off to a good start and also that Gilead has recognized that value and is putting enormous resources globally behind the product. So certainly, when we originally partnered with Immunomedics, the triple negative -- the late-line triple-negative breast cancer indication was our -- was the core of what we were looking at. And we are optimistic about both moving earlier in triple-negative and the HR+ data, which we'll see later this year.

And then the two indications, bladder and lung cancer, bladder is a competitive space. But we do think that Trodelvy has a unique kind of combination of efficacy and tolerability in that disease as well. So we are excited to see how that rolls out as well.

And then all of the activity in Trop-2-positive cancers, including the lung cancer opportunity, are certainly intriguing. And we will be eagerly awaiting the how that progresses and how Gilead moves lung and other indications for it in the future.

Operator

Our next question comes from Umer Raffat with Evercore.

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

This is Mike DiFiore in for Umer. Congrats on the quarter. Just 2, if I may.

Again, with regards to your updated long-term outlook, it would seem to be now more of a 60-40 organic versus inorganic contributive split. Just focusing on organic growth, what would you say would be the biggest product drivers to this mid-single-digit growth? And how much does product pricing factor in here?

And as a follow-up, in terms of inorganic future deal growth, is this predicated more so kind of on riskier development-stage deals in the past? And I know you said that M&A types of deals are kind of harder to predict. And if you could just provide more color on how earlier-stage deals and as well as M&A stage deals could factor into this mix going forward.

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

Yes. So I'll take the last part of your question, then Terry can answer the first part.

So I think if you look at what's happened over the last 8 years, it turns out that it's been pretty balanced, roughly half and half. I mean, maybe 55:45 between approved and unapproved, and -- 55 approved and 45 unapproved. And I think over the long term, it probably will be a similar ratio where it could be close to evenly split, could go maybe larger approved or maybe larger in the other one. It's going to be hard to predict. But what has happened over the last couple of years is that we have invested a lot more capital on approved products. Jim mentioned that already in his prepared remarks.

But I think the unapproved opportunity for us is really big because, as we've talked multiple times in the past, the biotech industry is in its sort of golden age. And there's so much demand, need for capital among biotechs that have been created over the last 10 years, many of which have gone public over the last 5 years and raised a huge amount of capital, many -- close to $100 billion of capital raised by biotechs and IPOs and follow-ons.

And all of that money, obviously, is funding early-stage trials. But these companies will need funding for the larger Phase III trials. And that's where I think there's going to be very interesting opportunities for us. And I think over time, maybe the balance will shift to have a little bit more investment in unapproved, maybe getting to half and half. But it's a risk we're very happy to take because it comes with very attractive upside.

And I think I would also note that we are actually having discussions today about funding late-stage trials not only with biotechs, but with some of the bigger companies that also have very, very attractive portfolios that require so much capital that they want to actually work with us to mitigate risk.

So it is an attractive opportunity for us. It's one where, if you look at the amount of capital we have today invested in unapproved, it's so low on a relative basis that we could invest $2 billion, $3 billion over the next 2, 3 years in unapproved, and that would probably bring it back to about a 50-50 ratio. And it's something that would be very attractive for Royalty Pharma to achieve very attractive returns for our investors.

But I'll pass it on to Terry now for the other part of the question.

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

Yes. So your question on certain growth drivers for the long-term outlook. I think certainly, we're lucky that we have a number of products that are still in the early or middle innings of their growth. So when we look across the portfolio, I think the bigger drivers will still be CF, but also Imbruvica and Evrysdi and Trodelvy and Xtandi and also Nurtec. I think we do expect all of those products to be healthy contributors and to also offset some of the expirations that we will face over the next couple of years.

In terms of the mix of volume versus price, our expectation is the vast, vast majority of growth will be driven by volume and price will be less than a factor.

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

One thing to just mention, just adding to what Terry said, is all of those products, I think you mentioned 5 or 6, that are just incredible drugs, blockbusters, that many companies have 1 or 2 of those. We have 6 of these amazing drugs with very significant growth, double-digit growth, some are growing at 30% per year or more because they're in their launch phases.

But what's very attractive about Royalty Pharma is that the growth is driven by a diversified portfolio of blockbusters, differentiated blockbusters, not 1, not 2, but many of them. So that makes our growth much more predictable than many companies. And I think that's something that many investors have probably not appreciated enough, that it is -- the diversification we have helps our top line and our bottom line and makes both the top line and the bottom line fairly predictable. And I'll stop there.

Operator

And our next question comes from David Risinger with Morgan Stanley.

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

Let me add my congrats as well. So I have 2 questions. First, Pablo, if you could discuss the potential for future M&A transactions. So what could they look like? And when you say M&A transactions, could you provide a little bit more color on what the company could be acquiring beyond just royalties?

And then second, with respect to the comment about funding late-stage trials. Obviously, Royalty Pharma has had some successes, but also a mixed track record. So how will the company ensure that it's not just taking on trials that big pharma or other biopharma companies are hesitant to fund internally?

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

Yes. So the last comment you made, made me reflect that, if there are many things that we have passed on, because there was a question to Jim before, what are some of the themes we have -- why we have passed on investments? And it's -- in many cases, it's exactly what you just said, that when we have discussions with companies, often, they want us to fund assets that maybe don't make the cut, that they decided not to fund.

And it's amazing, when I look and reflect on the past, how many things -- with big companies, medium-sized companies where the asset looks great, and then when you dig in, you realize that at the end they decided not to fund it. And we end up passing in many of those cases.

So that's something that's very important for us to tease out when we're having these conversations. And in fact, what we've generally tried to do is to tell those companies what we would like to do is to fund the ones that you are funding, the top programs. And by us funding those, we're going to free up capital that's going to let you then expand the number of opportunities that you're funding into others that might be a little bit more risky. But -- and that's worked out relatively well in many cases.

I will also add that if you look at the track record in the past, of the over $6 billion that we've invested in unapproved products over the last 8 years, and now we're going into the ninth year, 90% of those worked out. And it just happened that after we went public, we had a couple of failures with Ibrance and the Cytokinetics cardiovascular drug. But we have had maybe 6 or 7 successes before that.

So I think try to look at the ones that did work out and then, on a relative basis, look at the outcome, the returns that those provide and how they make up for a lot of the -- they make up for the losses on the ones that didn't work out. And more than make up, because, obviously, the returns generally are very attractive. So those are 2 comments on the funding.

But then regarding M&A, there's been conversations that we've had in prior years of transactions that could be transformative, large, multiple billions of dollars of us deploying capital in M&A situations. And what happens in some of those cases is we had a conversation, one situation where it went far. We made an offer. And at the end, another company paid more. But it was going to be a fairly large transaction for a large company, and we were going to put to work billions of dollars of capital creating a new royalty.

So I think what form will they take? I think, in some cases, we will provide capital, invest capital and create a new royalty that could be fairly large, the investment we make. In some of these cases, it's rare that it's going to be a couple of hundred million dollars because those numbers really don't move the needle for companies, right? So when a transaction like that happens, it's likely to be $1 billion-plus. It could be $500 million, okay, in a middle-sized M&A transaction, mid-sized M&A transaction. But for the larger ones, it's likely to be significantly more capital.

And so we could put capital to work and then create a royalty. Or in some cases, the target could have royalty assets that fit very well with us and do not fit at all with the acquirer and it could also be fairly large. So those 2 themes are things that we're constantly looking at in M&A situations, both creating a royalty or acquiring existing royalties that the target company will have.

And you know it very well. Biotechs might have 2, 3, 4 drugs in their -- they might own 2 or 3 drugs that they have developed. And it's very often the case that drug #1 or 2 was out-licensed, and that became a 10%, 15%, 20% royalty. And they now have drugs 3 and 4 and 5, maybe 3 is more advanced than 4 and 5, but where they are now developing that drug and trying to -- they haven't out-licensed it and they want to preserve the economics in that drug for themselves. But if they become the target of an acquisition, the acquirer is looking at that third drug that is now maybe in late stages, close to approval or just got approved. And maybe also the pipeline, 4 and 5. And they will probably not want to retain royalties that could be sizable, in the teens, in the first and second drug. And we become the ideal, the partner of choice for those.

But we could also, in some of those cases, even have a discussion where we could fund the trials on the pipeline, the other drugs that are in the pipeline that might require meaningful funding.

So I think we just need to be very open-minded and see how we can work with them in a win-win situation, provide solutions and create a great outcome for the acquirer and for us.

Operator

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

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

Thank you, operator, and thank you to everyone on the call for your continuing interest in Royalty Pharma. My team and I look forward to continuing to share our progress with you. If you have any follow-up questions, please feel free to reach out to George. Thank you for today, and we're here to continue having discussions with all of you.

Operator

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