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Conference

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

PRESENTATION

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

Okay. Thank you all being here. Pleasure to have Royalty Pharma management team with us. I want to kick things off. But just before I do, should I maybe turn it over to Terry to start us off and we will jump right into it.

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

Yes, sure. Well thanks, Umer. Thanks for having us today, and thanks to everyone at Evercore. We're really excited to be here and answer all of your questions.

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

Excellent. Say, before we dive into questions, maybe give a general overview of where Royalty Pharma stands now and what's maybe in store for the future?

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

Yes. So well...

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

I think let me just add. Are you just a CF royalty company? Or do you have something else?

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

We had some other things going on. It's been a great year for the business. We've deployed, it's almost a record year in terms of capital deployment. We've announced a number of really great transactions. A couple in the last couple of months, big \$1 billion -- \$1.5 billion potential billion upfront for Evrysdi for product for spinal muscular atrophy that many of you probably know pretty well. We just announced the deal last week or two weeks ago with Teva.

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

Yes, they are here.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

And we're really excited about that one. And yes, it's been really good. We feel like the business has a lot of momentum. We feel like we're firing on all cylinders. The environment has never been stronger. Marshall's team has never been busier. And so we feel like there's a lot of great transactions to do ahead of us and a lot of great capital deployment. And the idea for us is that we can continue to scale this business, deploy more and more capital every year, add great new assets, continue to diversify the portfolio, add cash flow and it becomes this real compounder over time.

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

So I know there's multiple layers to this, and we'll go into each. But the way I see it is there's a broader interest rate environment, presumably higher the rates, they should slow down the deal pace. That has not happened. There was also this added component of "oh, some of the deals could now be more capped on the upside" that hasn't quite happened either. But there's also that still ongoing disconnect in the equity market valuation of the company versus where the M&A deal pace is as well as sort of how much you've graduated past some of the legacy competitive threats there were. How do you sort of piece that together? And what's your sense around all that?

QUESTIONS AND ANSWERS

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. So certainly, we've noticed that the equity performance has been disappointing. There are things that we feel like we can control, and that's the execution on the business side, and we feel like we've done really well there. But we are a new, we're still a fairly new public company. We truly are an N of one. There are no direct peers out there. And so there's a bit of an education process and just getting out there explaining why this story is unique, all of the unique attributes of this business. We feel like we are, we're, right now, Marshall and I are here. There's another group, Pablo's on the road in Europe. And so we're trying to be in front of investors to really help educate them on this story. But there have been also some other perceived headwinds that we've definitely tried to address over the last couple of quarters. One has been rates. So we are perceived as a business that we think, mistakenly, perceived as a business that's heavily influenced by rates. And there's no doubt that in this environment, cost of capital has increased. We're very fortunate that we have \$6.3 billion of investment-grade debt and it's locked in with 70% matures in 2030 and beyond, and we're borrowing at 2.5%. So we're very fortunate from our current capital structure. But we will borrow more money in the future, and presumably, we will be borrowing at higher prices. So what we've tried to explain, though, is that there's a major offset in our business and that the key is, as our cost of capital has increased -- so when we went public, our cost of capital might have been around 6%. Now it's inched up at 7%, maybe even 8%. The question is, what is the spread that we're able to earn above our cost of capital?

And what we feel like is that the deals that we've been announcing over the last year or two in this higher rate environment have been at higher returns where we are maintaining that spread above our cost of capital. In the meantime, the interest rate environment is affecting every biopharma company. And that's making the pie much bigger for us because royalties are becoming more and more entrenched as a way that the industry funds itself. So we think that we can be sort of net beneficiaries in this environment. But it has been a perceived headwind.

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

And just to be clear, Terry, when you have conversations with your Board -- and again, we'll jump a little more specific on some of your individual royalty streams -- when you have Board level conversations on this, are they focused much more so on this traditional EPS number of sorts, the proxy to EPS and the potential valuation construct off of that? Or is the Board much more focused on the cash flow the business produces?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

We think, I mean when we think about the value of the business, we think of it more on a fundamental DCF basis. And we know that every year, our goal was to deploy as much capital as possible in new royalties. And we've been really clear and transparent with that. So looking at it on a multiple basis is a way that some people might look at the business. But for us, DCF is a core way that we think about the business.

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

Got it. So, and I want to start getting a little more specific on individual royalties. When you guys did the MorphoSys deal, I think that was a couple of years ago at this point, there was a sense that you may have, because ultimately, if it's a royalty stream that gets you \$50 million to \$75 million, given the size of your top line, I feel like it increasingly does not get a ton of investor attention, even though in an aggregate, it obviously adds up. But for royalty streams that have the potential of \$200 million to \$300 million, people care. And I thought MorphoSys was one of the first ones, which combined with a couple of other steps at the time, it looked like you might have a path towards solving for whatever shortfalls may even happen off of Vertex to the extent that even happens in the first place. And then there's been several others since then. So for folks listening in who are aware of Royalty Pharma and the business model, but maybe not tracking it day to day -- could you remind us over the last couple of years, what are the more chunky royalty acquisitions you guys have done, and maybe we could talk about them more specifically?

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

Yes, sure. I can talk about that. So we've been really fortunate since we've gone public now over the last three years that in each of these years, we've been able to do a really large transaction. You talked about MorphoSys was the start, where been obviously topical with the news on Pelabresib in the last couple of days, but that transaction was we helped MorphoSys fund the acquisition of Constellation through buying from them -- the deal was really anchored by their royalty on Tremfya, which is, I'm sure everyone knows, is a flagship product for Janssen in psoriasis and inflammatory bowel disease. And that was -- and then alongside that, we bought additional royalties, but it was really anchored by Tremfya, and that was an exciting deal and exactly the kind of product we want to be involved with.

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

And that's still in infancy for the Royalty Pharma pipeline -- Royalty Pharma reported revenues? Would you agree with that?

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

The psoriasis business is growing well, and we've seen that the IBD data and certainly uptake for the competitive products has been fantastic, and we're excited to see that next leg of growth for Tremfya as well. So it's a future, absolutely a future contributor. Since then, we've added other large royalties. Last year, we bought a royalty for \$1.3 billion in Trelegy, which you may or may not know, is a GSK product, market leader triple inhaler therapy that's growing really, really nicely, market leader in this space, was another big royalty.

And Terry mentioned just recently, we did \$1.5 billion for additional royalties in Evrysdi from Roche. So we've been really happy again with the execution and particularly the execution in larger transactions.

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

And for folks listening in, again, I just want to make sure we can sort of put this all in perspective. So Tremfya when you bought that royalty, and I'm going to focus on those three in particular, and there's a bunch of other smaller ones as well. Tremfya was about -- or is about \$100 million run rate right now. And as per the expectation per consensus models, the implied peak revenue potential is what for Royalty Pharma, \$300 million to \$400 million, is that the range?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

I don't know off the top of my head, but consensus has it getting into \$6 billion, \$7 billion.

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

A mid-single-digit royalty -- mid-single digit royalties.

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

So yes, so about \$300 million or so. So that's one. The second one being Trelegy. Do you have a, I think that one tracks at about \$200 million, \$250 million run rate right now already. And with the ramp-up expected, do you see this as a \$500 million-ish opportunity?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

We haven't been -- haven't been really -- We don't give product level guidance.

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

Okay. I guess said differently, if I just take these three, the Tremfya, which is at \$100 million right now, right now. Trelegy, which is at \$250 million right now. So that's \$350 million between the two and the Evrysdi. Those three, heading towards their peak, could they be an aggregate of \$1 billion? Is that an unrealistic estimate to have without getting more line specific?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

They're going to be very important, very important contributors.

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

So what I'm learning, these large chunky deals like MorphoSys, Trelegy and the recent Evrysdi deal, I mean, in my mind, has essentially solved for whatever cash fall off from CF may happen. I mean in your --

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Any one of them. Any one of them because we, what we've -- for people who don't know, there is a question about the new CF triple that Vertex is developing. And the question of whether we're, what components of that new triple therapy we are entitled to royalties on. And what we've said is that we know that we're entitled to royalties on one component, the tezacaftor component.

And for that component, the royalty rate would be around 4%. The question is, are we entitled to royalties on the deuterated ivacaftor component. Our position is that deuterated ivacaftor is the same thing as ivacaftor, and we should get the same royalty rate. And Vertex clearly has a different view there. So what we've said is that if we look at, let's sort of look at the downside scenario where we are wrong on the royalty rate and a significant percent of patients switch, 50% to even 75% of patients switch. The downside to our business would be a couple hundred million dollar headwind, \$200 million to \$300 million is what we've said.

And when you put that in the context of those deals that we -- that you mentioned, any one of them would fill, could fill that hole. So that's the beauty of the business is that we are constantly reinvesting. We're constantly diversifying. Like any company, we're going to potentially face headwinds from competition or loss of exclusivity or something else that was unforeseen. But the business is resilient because we are able to redeploy capital and not just to buy revenues. These are happening in value-enhancing ways. These are NPV positive deals.

And so overall, we feel really good about our ability to sustain growth regardless of what happens with any one product in the portfolio.

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

Maybe just to go down that direction a little bit, Terry, because this question comes up and it's going to come up much more prominently with Vertex Phase 3 coming up. So two broad questions. One is the clinical relevance of how much they can switch over to their franchise to the next program. So we can talk about that. And then there's a more legal question, which is, is a deuterated version of the drug a different compound or not? And at least the way -- at least the way some of the language was written in publicly posted SEC filings, it does sound like it's more compound specific.

And to me, you replace hydrogens with deuterium, that's a different compound. So I guess, and how do you guys think about -- or how is the feedback that you get from your counsel thinking about why would a deuterated ivacaftor be considered the same compound?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. So we can't really get into those sort of nuances. I know investors want to understand and I totally sympathize. But for us, it doesn't really make sense for us to get into all of the sort of legal strategy at this point.

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

Got it. Could it be, and Terry, this is more just to understand the direction where this logic comes from. Is it the definition of compound, deuterated versus nondeuterated, or is it more because I think somewhere, I read some language back in the day where somewhere in your agreement with Vertex, it did specify that any molecule discovered, any compound discovered prior to a certain date, I think it was 2016 would fall under that collaboration. Is it more a function of compounds generated prior to that date is how deuterated falls into the collaboration? Or is it more of the definition of compound itself?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. I just can't really -- I can't really get into it.

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

Okay. And what about the clinical relevance aspect of Vertex? What has to happen for a meaningful switch to happen? Or what doesn't happen in a meaningful switch would not happen?

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

Yes. You always said that Trikafta is a very high bar currently. And in your model when you modeled out at 50% switch, 75% switch, were there any hard data in terms of sweat chloride and FEV1 that would need to occur in order to get those -- that level of switching?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. So I mean, we look at it on a range of scenarios. But I think the way that we have thought about it is in order for 75% would be pretty significant switching. And again, Trikafta is a great product that will have been on the market for a long time with a great safety profile and patients do really well on it. It has totally changed the course of the disease for people who are able to take Trikafta. So it's set a really high bar. And I think our view is that in order to see that level of switching, it would need to be meaningfully better from -- on a sweat chloride basis, but also on a lung function basis.

So that's -- we'll all be waiting to see the data early 2024, I guess, is the latest. And -- but for us, that is why we wanted to also sort of put those numbers out there and just break down the math for people. If you want to assume the worst, then assume the worst. It's not going to change anything for our business.

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

Got it. Moving on from CF unless you have any more questions Umer?

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

I think we can move on. All right.

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

Just more. One question on mechanics of the recent Evrysdi deal. Like why did you guys structure the deal in a way that gave yourself such a short time frame to exercise your option to purchase 50% of PTC's remaining shares? You only have, you can only do that in 1Q '26. What was the rationale behind that?

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

Well, the idea was what we've talked -- always say is we try to really be partners with people. And so you think about it, it's a pretty powerful construct where we bought \$1 billion upfront. PTC has flexibility over what is actually a two year period to sell the rest of it to us. And then in exchange for that option, right, options have two sides, right? We have the option to buy half of the remainder if they haven't sold that to us so far.

So we thought it created sort of a nice balance in the, in that deal so that we each kind of have an option either way. So we were really happy with how that came out.

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

Got it. Got it. And Tysabri, again, this is your second biggest royalty generator. Any thoughts on the potential impact from Sandoz's biosimilar, which is expected to launch in the first half of next year?

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

Yes. So that's been an event, I think we've all been watching for a while, so not like that's coming out of nowhere. We'll see what happens. I think it is a little bit unprecedented in terms of having a single alternative biosimilar for a product with a REMS that has its own complexity to it. So we'll see what happens with the launch, Sandoz is obviously a great company. It's going to have an impact on the product. I think that's already in everyone's expectations. So we'll see what happens. But I think it's kind of out there in terms of what the next steps are.

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

Got it. Just ticking down the list here. So the whole obesity field has become white hot obviously in the past two years. I mean like why hasn't Royalty done obesity-related deal yet? And is it simply because there's very few existing royalties out there and/or are synthetic royalty difficult to generate in that space?

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

Yes. I think to take a step back, what's been happening in obesity, obviously, not lost on us. And so our North Star, though, is always not checking a box, right, to say we have exposure to thing XYZ, it's what is a really high-quality opportunity that's exciting and makes sense for Royalty Pharma's portfolio and we have the patience and long-term perspective to wait for that. So in the two leading companies today, that's a lot of internally developed science, I think we're definitely looking at opportunities in the next generation, be it oral or combinations or extended sort of extended duration opportunities. So I think what you've seen from us in the past, I mean, we just did our first gene therapy investment last -- a couple of months ago. So we'll pick our spots and sort of wait until it's the right thing for us.

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

Got it. Got it. Well, thank you gentlemen. Great. Thanks for spending time with us, and enjoy the rest of the conference.

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

Great. Thanks. Thank you. Thanks guys. Appreciate all the questions. Thank you.

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