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PRESENTATION

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

Okay. Good morning. Welcome to the second day of the Bank of America Virtual Vegas Healthcare Conference. My name is Geoff Meacham. I'm the senior biopharma analyst here, and I have Bill Maughan from my team with me as well.

We're thrilled to have Royalty Pharma presenting here. And speaking on behalf of Royalty, we have Chief Financial Officer, Terry Coyne; and Executive VP of -- and Co-Head of Research and Investment, Marshall Urist. Welcome, guys.

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

Thanks, Geoff. Thanks for having us.

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

Yes. Sure. So the -- what we're going to do today is Terry and Marshall are going to go over some slides for about 15 minutes, and then we have some time for questions as well. So Terry, I hand over to you.

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

Great. Thanks, Geoff, and thanks to the Bank of America team for hosting us today. Slide 3 has -- in the deck has our usual forward-looking statements.

So yesterday, we announced our first quarter results and we reported -- I'm on Slide 4 now, and we reported strong double-digit top line and bottom line growth. We grew adjusted cash receipts and adjusted cash flow by 37% versus the first quarter of 2020. During the first quarter, we also had really robust deal flow, with total transaction value of $787 million, including $582 million of upfront payments.

We also announced what we think is a pretty interesting and exciting collaboration with MSCI to use our intellectual capital at Royalty Pharma to help them develop the thematic indexes in life sciences. And finally, we raised our full year guidance for adjusted cash receipts, and we now expect it to grow versus last year by 8% to 10%.

Slide 5 is an overview of Royalty Pharma. And you can see that on the left, we have 45 approved and development-stage products in our portfolio, 21 of those are blockbuster products that sell over $1 billion per year. We think that having blockbusters is really important because these tend to be the products that the marketers with the most resources behind to make -- to sort of maximize the opportunity.

We have a weighted average duration in our portfolio of 15 years. And that's a key metric for us because it sort of speaks to the longevity of the portfolio. We're always targeting longer-duration assets when we have the option.

Last year -- from a financial perspective, last year, we reported adjusted cash receipts, which is our top line revenue, of $1.8 billion. And yesterday, we guided to adjusted cash receipts this year of $1.94 billion to $1.98 billion. So again, 8% to 10% year-over-year growth. On the bottom line, adjusted cash flow was $1.5 billion. And over the last 9 years or so, we've deployed on average about $1.7 billion per year.

On the right-hand side of this slide, you can see some of the products in our portfolio. And these are many of the more prominent products in our industry. So at the top on the left, you have Vertex' cystic fibrosis franchise, Gilead's HIV franchise. That royalty is coming to an end in 2021, but it's been a fantastic investment for us. And then AbbVie and J&J's Imbruvica, Biogen's Tysabri, Pfizer and Astellas' Xtandi.

And then also on the bottom, you have a number of products that are launching, on the bottom of that sort of top right box. So that's Trodelvy, Nurtec, TAZVERIK, OXLUMO. And we also recently announced an acquisition to acquire Cabometyx, which is a product that's -- an oncology product that's having a really strong launch as well.

And then we have a number of development-stage products in the portfolio. So the ones that I would point out are Biohaven's zavegepant where we're going to have data later this year. And also AstraZeneca's PT027 where we would also expect to see some data later this year.

Turning to Slide 6. This is a snapshot of our non-GAAP P&L for the first quarter of 2021. And you can see that we had adjusted cash receipts of $524 million. We had operating and professional costs of $42 million, so 8% of our adjusted cash receipts went to operating and professional costs. We had minimal R&D funding. So sort of 92%-ish EBITDA margins in the quarter. And then interest was $63 million, other expenses are $7 million, brings you to adjusted cash flow, which is our bottom line, of $409 million or $0.67 per share. And that's a 78.1% net margin. So it really speaks to the high cash conversion of our business and the efficiency of our operating model.

Turning to Slide 7. So let's take a step back and look at the broader royalty market. So 2020 was a record year in both the number of transactions and also the dollar value of transactions. The 23 is different royalty transactions and $5.4 billion of total dollar value transactions. And we felt this momentum as well in the breadth of opportunities that we've been looking at. We think it speaks to the growing role that royalties are playing in the funding of innovation in life sciences and is an important tailwind for our business going forward.

Slide 8 takes this a little deeper and looks at Royalty Pharma's market share. And so since 2012, we've had a 60% share of the total dollar value of royalty transactions. And if you sort of move left to right on the graphic, you can see that our share by dollar by transaction size increases as transactions get larger. So $100 million to $250 million, we have around 1/3 share. When we get to $250 million to $500 million, we had a 60% share. And then transactions over $500 million, we have an 82% share. We think that this really speaks to our scale, our diversity, our cost of capital and also the conviction that team, who's been doing this for a really long time, can generate to deploy significant amounts of capital in large royalty transactions that really move the needle for our company.

And finally, last slide before I hand it over to Marshall, I'm going to talk a little bit about what we view as our competitive advantages. So I talked about scale and diversification. We have 45 products. There isn't any other business out there that acquires pharmaceutical royalties that has a portfolio like ours. We also have structural scale. So we're the only publicly traded business with consistent cash flows and the ability to leverage our entire portfolio, which we think is very important.

And that brings us to sort of the cost of capital advantage. So we refinanced all of our debt last August. We have an average interest rate of 2.125%, and we have an estimated mid-single-digit weighted average cost of capital. We think this is a major advantage in -- versus other companies which have -- which are not investment grade-rated and are looking more at asset-specific financing where the cost of debt is much higher and also their cost of equity is higher. So we think that this allows us to have a real competitive advantage in bringing in royalties and winning competitive opportunities.

We also have a very large acquisition capacity. We finished the quarter with $1.8 billion of cash. We've always had conservative leverage. We have access to a $1.5 billion revolving credit facility. And what we think that -- and now, since last year, we also have access to public equity markets. And we think that, that really gives us the deepest pool of capital out there to continue to grow our business.

In terms of focus, that's another area that we think is very differentiated. This is all we do. We spend all our day thinking about exciting new products, whether they're on the market or in development, that we can add to our portfolio. And we don't have various different strategies, we're singularly focused on the biopharmaceutical market.

And we also, finally, have really great industry relationships. We've all been doing this for a really long time. And we think that, that gives us an important competitive differentiator. A lot of deals are sort of won on the margin and the relationships are really important because we can also bring the potential to collaborate in the future as a long-term partner. We think that that's something that holders of royalties and companies really value.

With that, I'll turn it over to Marshall to talk a little bit more about some of the deals in the portfolio.

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

So thanks, Terry. So I think building on all of those factors that Terry talked about underlying our competitive advantage, that really resulted in a really strong start to 2021. So I'll take a couple of minutes to talk about a couple of recent transactions where we've added some really exciting high-growth therapies to our portfolio.

So beginning on Slide 10, let's start with our recent acquisition of a 3% royalty on the cabozantinib product, Cabometyx and Cometriq, that we acquired from GlaxoSmithKline. So for -- we did it for $342 million upfront and then another $50 million in potential milestone payments related to label expansion.

So cabo, I'm sure, is familiar to many of you out there. But just as a quick background, it is a leading TKI approved for both advanced renal cell carcinoma as well as hepatocellular carcinoma. And there are -- one of the things that we're excited about is there are multiple other ongoing studies to further expand the label, both in first-line for hepatocellular carcinoma, further combinations in renal cancer and then also expansion into lung and prostate cancer. And most recently, Cabometyx was approved in combination with Bristol Myers' PD-1 inhibitor, Opdivo, for first-line renal cell carcinoma. And as we heard from Exelixis last week, the early launch there is off to a good start.

So as I mentioned, Exelixis markets cabo in the U.S. and then Ipsen markets it in regions outside of the U.S. and Japan, and then Takeda in Japan. So a really strong lineup of marketers behind this product to really maximize its value around the globe, which is one of the things, when we look at bringing new royalties into the portfolio, that we really look for.

In terms of what does Wall Street expect for the cabo products, well, the sales were a little over $1 billion in 2020 and consensus has that growing very significantly to just over $3 billion in 2025. So this is an exciting product and one that we expect will deliver an attractive return to Royalty Pharma as well.

So going on to Slide 11 is another recent transaction for a rare disease product, called OXLUMO. So OXLUMO was recently approved in the U.S. and Europe for an ultra-rare genetic disorder called primary hyperoxaluria Type 1, or PH1, and it's going to be marketed by Alnylam, which, of course, is a real pioneer in RNAi therapies and also -- and importantly, has really built out a kind of world-class commercialization infrastructure for rare disease drugs around the world over the last few years.

So we acquired this royalty from another leader in RNAi, Dicerna, for $180 million upfront and another $60 million in sales-based milestone payments for a mid- to high single-digit royalty. And consensus sees this becoming -- sees OXLUMO becoming a $333 million product by 2025. So 2 really exciting transactions to add to our portfolio very recently and really showing our -- showing the strength of our momentum even in -- even just at the start of 2021.

So moving on to Slide 12. Let me just take a quick step back and talk about kind of the 3 pillars of our business model and how we think about our business. So the first here is royalties on approved therapies. This has been the core of Royalty Pharma from the beginning and now for over 25 years, and we expect to remain a leader in market share for the available royalties on approved products that are out there. And you can see some of the examples of recent transactions for approved products that we've brought in.

The second is development stage for unapproved products. So we'll -- and I will talk about this more on the next slide. But we'll continue to really target selectively products that are in the development stage. We've had a high bar to do this. We really have looked deeply at these products before doing it, it's to maintain what we've had -- or high success rate that we've had, but continuing to look at late-stage development opportunities will be core to our strategy.

And then third is M&A. And the way that has played out has been we've really been a key partner to strategic acquirers when they're looking at companies that have both an exciting strategic asset but then might also have a royalty inside of the company from a prior licensing transaction or something like that. And we help the company -- we help the acquirer fund the deal by acquiring that nonstrategic passive financial royalty as part of the transaction. And you can see we've done this multiple times over the years and added some really marquee products to the portfolio that way.

So Slide 13 kind of rolls this up a little bit to look at our historical activity from a kind of a thousand-foot view. And so here, you can see cumulatively, since 2012 through the first quarter of '21, we've done $15.8 billion in total of royalty transactions. And when you see how that breaks down between products that were approved and products that were not approved at the time of the transaction, it's really about half and half, so 55% approved and 45% unapproved. And so if you fast forward to today and look back, of that $7.1 billion of development-stage transaction, $6.3 billion or 88% of that is now approved.

And so there's a few important takeaways from that. The first is that we've had a very consistent strategy looking at approved and unapproved products for many years now. So that's been consistent. No change there. And we continue to expect to take the same approach in the future. And the second, if you look at the box all the way on the right, is that this has really been key to bringing in some -- to adding some really, really quality products to our portfolio.

A couple of examples to mention, most recently, Roche's Evrysdi, or risplidam, the first oral product for SMA that is launching pretty -- is launching well for anyone who's been following that. And if you -- and then through synthetic royalties, which I'll talk about next, we've added Biohaven's Nurtec ODT, which is having a great launch in migraine; Immunomedic's, now Gilead's, Trodelvy; and then looking further back, really incredible products like Vertex's Trikafta, Tecfidera and Imbruvica. So I think you can see our strategy has been consistent for many years now and is really -- looking across approved and unapproved has been a key way that we have built the portfolio.

Now moving on to Slide 14 is something looking forward that we're really excited about, and that's the opportunity for synthetic royalties. And a synthetic royalty very simply means that we work directly with the sponsor or a developer or the company who's commercializing the drug and basically create a royalty in exchange for funding. And this is really a tailored branding approach where we work directly with the company to really design a funding transaction that makes sense for Royalty Pharma and makes sense for the company.

We're seeing really good traction with this in the marketplace and having many conversations related to synthetic royalties because these transactions are really attractive to our partners for multiple reasons. It is non-dilutive to equity. And I think most importantly, it really gives the company -- allows the company to retain further control longer into development. And for many companies can be an alternative to partnering, giving the scale and long-term viewpoint that Royalty Pharma can take.

We don't have any kind of cookie-cutter approach to these transactions. It really is a blank sheet of paper to start, but we have done concurrent equity investment at the time of several of these transactions, really showing our flexibility and our ability to make -- to find something that really works and be a partner of choice.

I think when you look at the headroom for synthetic royalties, I think it's pretty striking. When you look at the chart here, we are really just scratching the surface. When you compare the size of synthetic royalty funding transactions to the equity markets alone, we -- even modest increases in the penetration of synthetic royalty transactions would really be a pretty dramatic expansion in the opportunity set for that part of our business. So I think that's something we're really excited about.

Just to mention a couple of examples. Most recently, we did a deal back in December of with BioCryst to support their launch of ORLADEYO, the first oral product for HAE, and they recently updated all of us that, that launch is also tracking pretty well in the early days. We've done this. We've done it with Biohaven, as I mentioned, Immunomedics as well. So we've really shown flexibility in the design and type of transactions and partners that we've had there. So we really think this is an exciting new way and it will be an increasingly common way to fund growth development and commercialization.

So just finally, on Slide 15, just to return to a couple of the themes that Terry mentioned. We are really excited about our model, the momentum -- and the momentum that we bring forward. And that's based on -- really on the factors that you see here. The first is we really see Royalty Pharma as sitting on top of what is an unprecedented period of innovation in our business. We're seeing new therapies, new modalities, new company formation at a rate we've never seen in the past. And we really see that as a very, very encouraging leading indicator for the opportunity for Royalty Pharma going forward.

I think importantly, against that backdrop, is that we're completely agnostic to therapeutic areas and categories. So we are -- we can follow the most exciting products wherever they go and just have that complete flexibility, and that distinguishes us.

If you look at our immediate portfolio, we offer direct exposure to many transformative blockbuster therapies. And importantly, the patents underlying many of the royalties in our portfolio offer very long duration of cash flow. We're highly diversified across products, therapeutic areas and marketers. As I've mentioned, we see ourselves as the partner of choice given our flexibility and -- in terms of deal structuring. And then finally, as Terry talked about, we have a highly efficient business model, low fixed cost that's highly cash generative. So I think you can see, from everything that we talked about today, why we're really excited about Royalty Pharma and the momentum that we take forward into 2021 and beyond.

And with that, I will wrap it up.

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

All right. Perfect. Thanks for that, Marshall and Terry.

QUESTIONS AND ANSWERS

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

I wanted to ask you guys, we get a lot of questions on the competitive landscape. You guys are, obviously, the founder of the royalty model. And there have been a few entrants but probably not with the scale that you guys have. So how do you maintain your edge is the question. And then does it have to be a zero-sum game? Does it -- can multiple companies in this space really thrive?

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

I'll take that, Geoff. So I highlighted a couple of the areas that we think really differentiate us. I certainly think scale is really important because scale allows us to do the bigger deals. It lowers our cost of capital. It gives us access to the investment-grade bond market, which we think is really a competitive differentiator for us. But that's not the only thing. I think that we have a lot of a lot of intellectual capital. We've been doing this for a long time and have gotten a pretty good system over the years. And we also have these, we think, a really strong reputation in the market as a really constructive counter-party that you can work with and that you do one deal and it could lead to multiple deals down the line. So we think that all of those things work in our favor.

I would say it's not a zero-sum game. Actually, the more companies that are out there talking about royalties as a way to fund innovation, it's actually better for our business because we still think that we can -- for the assets that we really want, we still think we have that cost of capital advantage and the scale advantage that we can still win. But we think that sort of a rising tide lifts all boats. And so there's a lot of people talking about, hey, have you thought about royalties as a way to fund your Phase III trial or to fund your launch, that's a good thing for us. And I think that we've seen it with the momentum in the market. Last year, a record year in terms of transactions. In terms of dollar value, we still maintained a really strong share. So I think that all of those things really play to our favor.

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

And I suspect that the number of potential transactions has gone up quite dramatically with the number of new companies in the space. But of the ones that you guys are kind of in later stage with, have you noticed that you have more competition at the end of the day? Or is it more a function of people find royalty to be the right fit and then it's a matter of kind of adhering to the terms of or the bookends of what you guys like to see?

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

It really depends. I mean competition has been there for a long time. And so it's -- we've always sort of operated as if there's competition nipping at our heels anyway. But we think that we have -- Pablo has always said that we approach every deal with a blank sheet of paper, and we're really trying to create win-win situations. And I think there are a lot of deals that we do that are just us and the counter-party where they know that they can work with Royalty Pharma. They can get something that works for them and works for us, and that we'll be a good partner and we'll be there in the end. So I think competition is there. It's a good thing. It actually makes people feel like this is a healthy market. If there was only one player, it wouldn't feel as healthy. So -- but we do think that we have major advantages.

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

Got you. Okay. That's helpful. From a policy perspective, I mean, I think we and investors understand the model, you guys don't take clinical risk, a lot of it at least. So there are some aspects of the model which lead to a lower risk profile. But I want to get your perspective on things like tax policy and maybe drug pricing risks. Sort of some of it's a headline, but some of it could affect the business. And how do you go down the line in each one of those issues?

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

Yes. So why don't I take the tax one and then I'll turn it to Marshall to talk about pricing.

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

Sure.

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

So tax is obviously topical these days. All of the discussion around U.S. tax reform really involves U.S. corporations and U.S. individuals. And just to be clear, Royalty Pharma is a U.K. plc. The reason that we don't pay U.S. corporate income tax is because we're not involved in a trade or business in the United States. And so we don't see anything changing there. And we feel very comfortable with our structure and our tax structure. It's been largely the same since 2003. So we have a really long history and feel like it's very well vetted and feel very comfortable with it.

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

And Geoff, on the drug pricing side, certainly something we've all been following for many years. And I think even to start this year, it's been interesting how we're still asking the same questions like if, when, how broad, what does it look like, and so something that we'll continue to follow. I think the way we think about it, though, is that we do have some kind of distinct advantages in that environment in the sense that, first, just when you think about our current portfolio, like you mentioned, we don't have to go back through. But just its diversity across all different types of markets and payers and geographies and everything else, I think is distinctly important in that backdrop.

And then also is our focus obviously on important sort of high acuity drug in general for significant -- for serious diseases. And then finally, I think it's important just to mention our flexibility, right? We don't have kind of therapeutic area constraints or anything else. So as we are continuing to bring new products into the portfolio, we are uniquely able to pivot and move in any direction much more quickly than I think other companies would be able to in our industry.

William Patrick Maughan - *BofA Securities, Research Division - Associate*

Can you hear me?

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

Yes.

William Patrick Maughan - *BofA Securities, Research Division - Associate*

So talking about -- you mentioned using more synthetic royalties going forward. And just thinking through the evolution of what kind of financing you've tended to do, are there any that you're more or less comfortable with or any that you haven't really favored that you think could become more part of the business going forward in addition to synthetic royalties?

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

That's a good question, Bill. I think if you look at what we've done, I think you've seen us show a lot of flexibility in how we approach synthetic royalties. I think the evolution of our relationship with Biohaven is a great example where we've done synthetic royalties, equity, R&D financing, helping them launch financing, really across the board. So I would say, no, to your question, we're just looking to find the right structure that works for our partner and for Royalty Pharma.

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

That's helpful, guys. Well, with that, we're out of time. So Terry, Marshall, thanks a lot for your time. Really helpful discussion.

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

Thanks a lot.

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

Thanks, Geoff and Bill.

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

Bye.

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

All right. Take care, guys.