REFINITIV STREETEVENTS

EDITED TRANSCRIPT

RPRX.OQ - Royalty Pharma PLC at Evercore ISI HealthCONx Conference (Virtual)

EVENT DATE/TIME: DECEMBER 02, 2020 / 1:00PM GMT

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

PRESENTATION

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

Excellent. Well, listen, good morning, guys. Thanks for joining us. Super excited to have Royalty Pharma management join us this morning.

(technical difficulty)

Before we do, Pablo, would love to have you perhaps kick things off and highlight for us the key things high on your priority list as we head into the new year.

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

Of course, Umer. Thank you. And good morning, everyone. It is a pleasure to be here at the Evercore ISI Healthcare Conference. I look forward to talking -- to taking your questions. But first, for those who are less familiar with our company, I thought it would be helpful to spend a few minutes explaining why Royalty Pharma is, not only a different kind of biopharma company, but also a unique investment proposition.

Let me start at the beginning. I founded the company in 1996, having recognized the large untapped opportunity to monetize the rapidly growing universe of pharmaceutical royalties held by academia. In our relatively short history, we have deployed more than $20 billion in capital in over 50 royalty transactions, and I am proud to say that we remain the pioneer and undisputed leader in the biopharma royalty market.

So why does Royalty Pharma offer a unique investment proposition? In short, we believe we offer investors the best attributes of biopharma without exposure to the common industry challenges. Our business model is very capital-efficient and enables us to benefit from many of the most attractive characteristics of the biopharma industry like long product life cycles, significant barriers to entry and noncyclical revenues. At the same time, we have no or substantially lower exposure to many common industry challenges like early-stage development risk, therapeutic area constraints, high research and development costs, and high fixed manufacturing and marketing costs.

Furthermore, in making our investments, we're agnostic to therapeutic areas, platform technology and treatment modality. This has allowed us to assemble a highly diversified portfolio of market-leading therapies like Imbruvica, Vertex's cystic fibrosis franchise, Xtandi, Tysabri and many others. Our exposure is to the direct top line, essentially the sales of these products. So from a top line revenue perspective, we're no different than any biopharma company.

We have incredible diversification in our business on the top line. But because of our low operating expenses, we also have the same diversification of our bottom line, which is unique. Unlike most pharmas, no single drug makes up the bulk of our revenue or profits. Our cash receipts are directly tied to the products themselves, which are backed by world-class marketers. Duration of patent protection and marketing exclusivity is a critical component, and we have a longer-dated and more diversified portfolio than almost all biopharmas.

So having set the stage, let me briefly review our progress in 2020, which has truly been a landmark year for Royalty Pharma. First, we have a very successful IPO, raising $1.9 billion in net proceeds, positioning us well to execute on our next phase of growth. We have since followed this with a $6 billion bond refinancing, which locks us in at an attractive average rate of around 2.1% and extends our average debt maturity to over 12 years. At the same time, we have continued to deliver excellent financial results.

You may have seen our third quarter results, which we achieve -- where we achieved 12% growth in Adjusted Cash Receipts and 27% growth in Adjusted Cash Flow, what we view as our top and bottom lines. Meanwhile, we have further expanded our portfolio to more than 45 products through new royalty transactions and regulatory approvals. To date, this year, we have announced $2.3 billion in transactions, primarily through our acquisitions of an additional interest in Vertex's CF franchise, Evrysdi, Prevymis and the expansion of our agreement with Biohaven. These products are all unique, ranging from migraine to rare diseases from infectious disease to cancer, reflecting our unique ability to invest across therapeutic areas.

Lastly, we have maintained a weighted average life of our portfolio at around 15 years, well above the industry average. With the help of FDA approvals of Tazverik in follicular lymphoma, Nurtec in migraine and Trodelvy in triple-negative breast cancer as well as our new royalty acquisitions.

Gilead's recent acquisition of Immunomedics further validated our hybrid funding strategy where we acquire a royalty and equity in the company. We have already achieved a 1.5x multiple and high-teens IRRs on our $250 million investment and we

(technical difficulty)

signing oncology product that consensus expects to achieve $4 billion in sales by 2029. So 2020 is shaping to be a strong year. But looking forward, what can you expect? Through the successful execution of our strategy and deploying an estimated $7 billion in capital from 2020 through 2025, we expect to deliver strong long-term growth. We target returns in excess of our cost of capital over the period while maintaining a weighted average duration for a portfolio of more than 10 years. We expect to pay out around 25% of Adjusted Cash Flow and dividends and to maintain our investment-grade credit ratings.

Based on this outlook and our unique position as a leading funder of innovation in the golden age of life sciences, I am as excited about the future of Royalty Pharma as I was when I founded the business back in 1996.

With that, I would be happy to take your questions.

QUESTIONS AND ANSWERS

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

Thank you, Pablo. That was really helpful. And I know we have Jim and Terry from the management team on as well. So my questions are not necessarily aimed at you only, Pablo. I want to say that upfront. But let me open it up to the team and let me start with this. Pablo, I think when you guys were first going public, there was some amount of confusion, mostly because a lot of investors come from funds, so they assume it's a fund.

But even sort of legally, you guys are certainly not an investment company. But forgetting the legalities for a second, just conceptually speaking, could you remind us the way the entity is set up and whether you own companies in-house or do you own cash flows directly in-house? I think that's a very important starting point.

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

Sure. Umer, I think just from a purely simplistic, but top-level perspective, if you ask yourself a very, very critical question of what drives the performance of Royalty Pharma, the answer to that question is very simple, and it really illustrates why we are not a fund and we are a company.

And the answer to the question is that what drives the performance of Royalty Pharma is sales of pharmaceutical products, period. We own a share of some of the best products marketed by some of the best companies. So it's no different than investing in Bristol-Myers or Lilly or Biogen or Roche. What drives their performance is sales of products. In our case, what drives our performance is sales of products.

In a fund, as you mentioned, what drives the performance is equity going up and down or if it's a debt-funded yield. So it is definitely a business. That's how we see it. That's the way we operate it. It's a perpetual entity and one that actually funds the life sciences ecosystem and shares in the benefits of that.

Now to talk a bit about the way we're structured, I'd like to turn it over to Terry.

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

Yes. Sure, Umer. So we've actually been structuring much the same way. We have -- at the top is Royalty Pharma plc, and that's the sort of the new addition that happened when we went public. But beneath that, we have basically -- we have an Irish structure, which allows the royalties to flow from the U.S. and global marketers without withholding tax.

And that's largely the same structure that we've had in place since 2003. So it's not like we own a series of its entities beneath just like subsidiaries of any operating company. We have a number of subsidiaries beneath Royalty Pharma plc that are set up for various reasons.

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

Got it. Terry, while we're at it, one of the -- as we think about Royalty Pharma from a reporting perspective, one of the most important line items on your P&L is the royalty -- is the percentage of royalties that are owed back to legacy shareholders. I think it's a noncontrolling interest line.

One of the points where I was partially confused with the recent equity offering where a lot of legacy shareholders -- where some legacy shareholders offered up their shares. For some reason, I thought that NCI line should shrink. Could you just catch us up on that?

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

Yes. No, that was -- so that group is entirely separate.

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

Got it.

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

So the people that sold in the recent secondary, those are people that are part of that -- are invested in Royalty Pharma plc. So that group is a separate group that basically just collects a piece of the cash flows of the pre-IPO investments. And over time, as a percentage of our top line as we make new investments that are not burdened by that percent that goes out the door, that line will shrink and shrink relative to the size of the top line as a percentage.

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

Got it. Got it. Got it. And one last point while we're at it for Pablo, for you, for Terry, both, perhaps, is one of the things we noticed was as we think about whether we should be looking at a GAAP P&L or a non-GAAP P&L, one thing that was not very obvious when the S-1 first came out was if we stick to a GAAP reporting, then the revenue recorded is not reflective of the cash flows of the quarter. So when I think of Ibrance sales in 3Q, that may not necessarily be what your GAAP revenues could be. Could you just remind us of that for folks that are still ramping up on the company?

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

Maybe before Terry provides some comments, what I would tell you is that Royalty Pharma is an incredibly, incredibly simple business when you look at really what drives performance because we own, as I've said before, a percentage of the top line of some of the best products. And at the end of the day, what we get every quarter is a wire, a check. Generally, it's wires this day from these companies that pay us a share of the revenues. So it's a very intense cash flow business that all we collect is cash on sales.

And then when you look at the cost structure, it's incredibly lean. We have -- about 8% of the revenues is our operating expenses. So that gives us this very, very high EBITDA margin of 92%-ish to be a bit higher but lower, depending on the quarter, but it's around 92%. And then there's other expenses like interest, and that leaves us with a net cash flow, which we really regard as our net income. That is also very high, north of 70%. But Terry, do you want to add anything to my comments?

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

Yes. No. I mean, Umer, you raised a really good point, and that's why we've sort of -- management focuses on these sort of cash-based metrics because our GAAP P&L, I think, does create some -- it's a little less easy to track because it doesn't really correlate to actual -- the actual performance of the product.

So let me give you sort of an example. So we make an investment. Let's say we spend $100 million on a new investment. What we do for GAAP purposes is you take consensus estimates for that product over time, and you have your upfront cost of $100 million. And you're basically imputing a yield. And then we record interest income every quarter based on that sort of the book value of the asset.

And so that doesn't necessarily correlate at all with the actual performance of the product because the way the yield works is it's going to kind of -- it's going to tick up a little bit, then it's going to kind of go down versus the way a product typically launches as it starts low and goes much higher. So it -- actually, almost like the inverse. And there's also this mark-to-market because we record a provision when consensus estimates change. And so that also creates a lot of volatility in the P&L.

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

Right. So Pablo, as we turn to forward-looking stuff now, I want to talk about revenues. I want to talk about some of the key product contributors. I also want to talk about the royalties that you're looking to buy. And I know we have a limited time, but let me start with revenues. And the first thing is I remember meeting with you, Pablo, a couple of years ago, maybe 3 years ago over lunch. And I remember one of the things that was very high on your mind at the time was you guys were dealing with a patent expiry schedule around Humira, Tecfidera, et cetera, and you're trying to graduate your way out of that.

So could you remind us of that? Because I find that one thing that happens with a lot of growth stocks among large caps is there starts to be a perception, "Oh, maybe there was a nice product cycle you caught." So for example, people -- there might be an assumption, it's just the -- all Vertex right now and not a whole lot else. It may not be doable again. So could you catch us up on the magnitude of what that growth impact was and how you guys graduated your way out of it?

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

Yes. So I've been running this business for 25 years. And like many life sciences business -- businesses, a product has a cycle. And what's always a challenge for many companies is that patents expire, and that creates a cliff. And one of the things that has been really interesting for me to observe over 25 years is that Royalty Pharma has been

(technical difficulty)

and really capable of living through those cliffs in really interesting ways.

And if I go back maybe to 10 years ago, 2010, or even maybe 15 years ago, 2005, we had an investment in Rituxan, which became -- it was the first antibody approved for cancer. We bought it after approval before it launched and captured very attractive growth. It became $6 billion, $7 billion, $8 billion drug worldwide sales, very large for Roche. And the patent expired in 2014. And we were looking at that 8 years before that, saying, "Oh, are we going to survive the expiration of the Rituxan patent?"

We got closer to 2010. We had 4 years left because it expired in 2014. We had made investments that started to shift the reliance of Royalty Pharma, not on Rituxan and other products we have, but to very exciting things like Humira, like the [HIV] franchise. And we just sailed through the Rituxan patent expiration. We didn't even notice it. Our revenues grew from 2013 to 2014 to 2015, and the patent of Rituxan expired in 2014. And we just went right through that.

And what did happen in 2018 is that by pure chance, we had 4 patent expirations on 4 incredible products, some of the biggest in the industry that were also very important revenue contributors to us. And it all coincided in 1 year. And it was Humira, Lyrica, Remicade and Tecfidera and there were a few other smaller ones. But those 4 big ones was obviously the perfect storm. And we did see a decline in revenue.

Now one very interesting thing, Umer, if you look at those sort of products, we lost $1.5 billion of revenue, and we were at more than $3 billion, and we came down to about $2.3 billion. And it turns out that we had made investments that we did not suffer the full $1.5 billion loss in revenue. It was only about $700 million because we have made other investments.

And I think what's really interesting now is that we're past that cliff. And I do not think that we'll face a similar situation where we will have in 1 year so many patent expirations of so many big products. And if we keep on reinvesting, I think the business will perform well. We will have patent expirations that are now far out in the case of Imbruvica and Xtandi in about late 2020s. But again, if we keep on reinvesting, and there's so much we can do in the next 7 years to make sure that we just have investments that are going to replace Imbruvica and Xtandi that I'm not at all concerned.

This year, we've already invested $2.3 billion and added great products out there.

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

Right. That's a nice segue to Mike, your question maybe.

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

Yes. Just more broadly, either for Pablo and/or Terry, just your expectations on top line and EPS growth over the next couple of years. That's a frequent question that we receive from investors.

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

Terry, go ahead.

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

Yes. So I think I'll just stick with our long-term guidance. So we've guided for top line growth Adjusted Cash Receipt growth of 6% to 9% from 2020 through 2025, a CAGR of 6% to 9%. The business is fairly efficient. So that growth is generally going to go to the bottom line. And obviously, like, interest expense is not something that -- unless we raise more debt, it's not something that's going to grow at the same pace. So there is a little bit of leverage in the model there.

But yes, I mean, that's what we've guided to. We feel very good about that. As of 2Q -- now we've made investments since then, but as of 2Q, we said that about half of that would be from our existing portfolio.

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

Got it. One of the other ones, I know we're just about hitting our time, but if it's okay with you, if we'd spend a couple of extra minutes. Maybe just to bring in Jim for a second as well. Jim, could you catch us up on the opportunity set you see from an investment perspective? And, how competitive is it out there?

I know there's other funds that are starting to look at the royalty business as well, but I'm curious what's the opportunity set and what's the competitive landscape. And do you foresee -- I know you guys have, in aggregate, have done a fairly large set of deals this year, but is there one big deal as (inaudible) well as we think about over the next 24 to 36 months?

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

Yes. I just want to make one last comment about replenishing the pipeline, which I think is amazing, is that the $2.2 billion that we invested this year, that was to bring in 7 new cash-flowing products. So if you put it in like a context of a pharmaceutical or a biotech company, that's like getting 7 approvals in a year, right? So it's pretty much using the power of the model. And the pipeline looks really, really strong. We continue to see a diversified set of opportunities, large, small university-based, corporate-based, more synthetic royalty opportunities as we think

(technical difficulty)

a number of biotech and pharma companies that see royalty financing as a new modality to fund their pipelines. I think that's really getting traction out there, and I think more and more people will choose to do that maybe as an alternative to equity if they don't like their stock price or maybe as an adjunct to equity if they just want another tool in the capital-raising armamentarium.

And there's just a lot of opportunities by virtue of the increase in number of drugs approved, the increase in the number of royalties per new approved drug, right, because that's also going up because the drugs are getting more complex, and that makes the number of royalties per drug increase over time, and just the number of folks who need a lot of financing also goes up, and there's a whole of financing of $200 billion over the next several years that we think will increasingly start to use royalty financing. So we really like the opportunity set.

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

Got it. If I may just ask one last one on cystic fibrosis for a second, 2-part question. One, Pablo, there was some -- and Jim, there were some questions raised by some investors on the recent deal you guys did on buying the foundation's economics above the high threshold. There's some question raised by some folks on whether there's something the foundation knows about pricing dynamic evolution that we don't.

And so if you could speak to that because I'm sure you guys did all your diligence as well. So they wouldn't necessarily be hidden. So that's one. And the second one, could you remind us the royalties? I know you guys went out of the way in your press release recently to specifically mention they're tied to the products, not the patents. So if you could just speak to those 2 points given the significance to your top line.

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

Yes. Maybe Terry, who actually was the person that was involved in the investment when we made the original investment in 2014 can also contribute. But one comment, Umer, is that I think people have looked at the deal and realize that if you look at the potential cash flows that this adds and the price we paid that -- the view is that we got a really attractive -- we were able to structure it on very attractive terms, very high returns for us. And the reality is that you have to just consider the fact that we already own a huge stream of payments that are incredibly safe, that are -- the first payments that are generated every year on the first $6 billion of sales. And what was for sale was the upside.

And if you think about that, other people looking at this asset are going to value the more riskier part of the stream at actually high discount rates because it's -- the first part is very solid. So obviously, this was a process. They talk to us and others. And at the end, we ended up being able to negotiate attractive terms because by us owning already the bottom part, we're actually in a great position to buy the top part, which is probably a little bit more risky, more volatile. And at the end, there were other factors that the relationship we have had with cystic fibrosis dating back to more than 20 years. I did -- I bought a royalty in Tobi years ago and started that relationship with them.

And I think the other important thing is that we actually already have so many rights through the contract that we control that any other potential buyer buying that little tranche would not have had those rights. And when you're thinking of a stream that is derived from a contract, having rights is really important. And who is able to enforce those rights is really important, which is us because we negotiate for all of that at the beginning of this -- the first part of the investment. So it really put us in a very unique position. But Terry, do you want to add anything to what I just [said]?

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

Yes. So I guess your question -- to directly address your question on pricing, we obviously do our -- did our own work and got comfortable with the pricing environment and look at it under a range of scenarios. I don't -- I doubt that the CF Foundation had some negative view on pricing, but I think more -- they are more focused on the conflict and the fact that there is -- they represent these patients and they're collecting royalties on sales of the product that is a high-priced product. So I think that, that was more the driver for them.

And then you

(technical difficulty)

the products and patents, yes. So yes, just to sort of reiterate, again, it's not -- these are not tied to patents. So as long as there are sales, even if they're -- even if Kalydeco goes generic, and it sells $1,000, we'll still get a royalty. So it's just not tied to patents.

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

It's a very unique collaboration that led to the streams -- stream of payments, which is the fact that the foundation funded the research. So what was negotiated originally was, "I'm going to fund the research, and you're going to pay me if the -- for as long as the products are selling. There's no tying to patent expirations [story]."

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

Yes, that -- and that's really the difference between 2 types of royalties that we see or royalties that come from collaborations. And when there are collaborations, they're oftentimes not tied to patents. And then royalties that are tied to a license of a patent, then that's going to be directly linked to the patent. So that's sort of different.

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

So the point, Umer, being that these are perpetual. Maybe the -- which is an amazing asset to have.

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

Fantastic. Fantastic. Listen, guys, I really apologize. We went over time. I'm going to jump over to our next session, but good luck for the rest of the day, and looking forward to being in touch. Thanks for joining us.

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

Sure. Thanks.

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

Yes, okay.
