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PRESENTATION

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

Everyone, I am Gregg Gilbert and I cover pharmaceuticals here at Truist. I'm fortunate to be hosting this fireside session, although it's a little warm today for a fire, but we're still going to call it that. And it's with Royalty Pharma management.

Before we begin, I need to read the following disclaimer. This call is arranged by Truist Securities research, released by institutional investors and issuer clients as defined by FINRA. If you are not an institutional investor or issuer, please disconnect at this time. For our required disclosures, please see our website at truistsecurities.com or our equity research library.

On today's session, we have with us Terry Coyne, CFO; Chris Hite, Vice Chairman; Jim Reddoch; Co-Head of Research and Investments and Chief Scientific Officer; and George Grofik, Head of Investor Relations. Thank you, gentlemen, so much for joining me and the firm. And thank you also to our Truist investor clients that are watching, listening now or reading later.

Terry will start with some background on a few slides, and then I will lead a Q&A session with the team and try to work everyone in. So with that, thank you, folks, so much for joining, and over to you, Terry, for those background slides.

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

Great, Gregg. And thanks to you and the Truist team for hosting us today. So I'm going to go through a few quick background slides before we turn it to Q&A. So Slide 3 is our usual forward-looking statements.

Slide 4. We recently reported our first quarter earnings. And just to go through a few of the highlights, we reported strong double-digit top-and bottom-line growth of 37%. We had robust deal flow in the quarter. We announced total transactions valued at close to $800 million, including around $600 million upfront.

We also announced during the quarter an exciting new collaboration with MSCI to develop thematic indexes, which I'm sure we'll touch on a little bit later. And we raised our full-year guidance for Adjusted Cash Receipts. So now -- we're now expecting Adjusted Cash Receipts to be between $1.94 billion and $1.98 billion, representing growth of 8% to 10% versus $1.8 billion in 2020.

If you go to the next slide, this is a snapshot of our portfolio. So we have 45 -- over 45 approved and development-stage products in the portfolio, including 21 blockbuster products with $1 billion or more of sales. This is an important metric for us because these tend to be the products that get the largest sort of effort by the marketers in terms of development and also commercial.

We have -- our portfolio has a weighted average duration of approximately 15 years. We typically target longer-duration assets. This is what we think works best for our business and really can drive value and growth over the long term.

From a financial perspective, in 2020, we reported Adjusted Cash Receipts, which is what we view as our top line of $1.8 billion, and Adjusted Cash Flow, which is what we view as our bottom line of $1.5 billion. This highlights the strong cash conversion in our business.

Over the last 8 or 9 years or so, we've deployed approximately $1.7 billion per year on new royalty investments. On the top right, you can see these are many of the products in our portfolio, many of the sort of marquee products in our industry, including Vertex's cystic fibrosis franchise, Gilead's HIV franchise, Imbruvica and Tysabri, Xtandi, Januvia and also a number of very exciting development-stage products -- or sorry, launching products at the bottom, including Trodelvy, Nurtec, Orladeyo, Oxlumo and Evrysdi. And then at the very bottom, you can see that we have a portfolio of development-stage product candidates. The 2 I would point out are zavegepant, PT027 where we're going to get data later this year on those programs.

If you go to the next slide. This is a very important metric for us. It's just the diversification of our portfolio. So our portfolio is diversified by product, therapeutic area and marketer. We think that this really leads to very predictable cash flows and is obviously very important from a sort of credit perspective as well.

In the next slide. Taking a step back, this talks about the royalty industry as a whole. And I think what we're feeling is that there's significant momentum in the industry. Last year was a record year in terms of the number of transactions and also the dollar value of transactions. And we think that this really sort of bodes well and speaks to what we view as a tailwind of innovation and significant funding needs in the industry that are really going to drive our business going forward as well.

Go, if you go to the next slide. This shows how Royalty Pharma share within the market has looked over time. You can see that since 2012, we had a 60% overall share. And we think it's really interesting to sort of look at the sort of transaction size by buckets. And you can see that as the transaction size gets larger, our scale really comes into play, and that's where we have a much larger market share. So transactions between $100 million and $250 million, we have around 1/3 share. Transactions between $250 million and $500 million, we have 60% share and then transactions over $500 million, we have 82% share. This speaks to our scale, our cost of capital, our ability to take on risk and really complete the largest transactions in the industry.

If you go to the next slide, George, this is how we plan to grow. It's very similar to how we've been growing in the past. We're going to continue to invest in improved products. And you can see a few of the examples there: Xtandi, that was a 2016 investment, Promacta, that was 2019, and then Cabometyx was an investment that we just did this year.

And we're also going to invest in late-stage development programs. That's what we did with Imbruvica in 2013. Trikafta, when we made our CF investment in 2014, Trikafta was still a ways off from even really entering the clinic. And then Trodelvy in 2018.

And then finally, participating in M&A. This is typically done where we work with a strategic acquirer, either at the time of their M&A transaction or after the M&A transaction closes, and we acquire a royalty and they acquire the strategic asset. A few of the marquee examples there: Tysabri, Januvia and Humira.

And then maybe if we just go to the last slide. So Royalty Pharma really is a very unique business at the center of biopharma innovation. We're well positioned to leverage the fast pace of innovation in this industry. It's sort of no secret that we're really in what we view as the golden age of biopharma innovation. And there's, as I mentioned, significant tailwinds that we think are going to drive our business going forward.

One of the things that's really unique to our business is we're totally agnostic to therapeutic area and modality. So we can invest in a breast cancer drug and a migraine drug and neurology drug and a rare disease drug. And we really -- we try to really focus on the best assets that are really driving significant benefit for patients in the system as a whole.

When you invest in Royalty Pharma, you get direct exposure to the growth of many transformative blockbuster drugs -- blockbuster therapies. And it's really the top line exposure. We have a long-duration portfolio, as I mentioned earlier, 15 years. It's diversified across products, therapeutic areas and marketers.

And we really pride ourselves on being the partner of choice in the industry by approaching every deal with a blank sheet of paper and trying to find win-win solutions that work for us and our partners to really fund the next great wave of innovation in the industry.

And then finally, from just a financial perspective, our business is very efficient with very low fixed costs. This most recent quarter, we reported 92% EBITDA margin. And that's very high cash conversion. Last quarter, it was 78% sort of net margin.

And with that, Gregg, why don't I pass it over to you to go into the Q&A.

QUESTIONS AND ANSWERS

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

Great. Thank you so much for that helpful background. I'm going to start with the newest guy at the company and that's Chris Hite. Chris, I remember you as a banker at a bank where we both used to work and when I started covering stocks. And we went on to great things in the investment banking industry there and elsewhere, and here I am still covering stocks and equity research. But I really wanted to start with your sort of decision and why you decided to make the move to Royalty Pharma. Why now? And how Royalty Pharma fits into that ecosystem that you've kind of lived for the past 20-plus years?

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

Yes. Sure. Thanks, and thanks again for having us at the conference. No, I was a banker for 25 years, and I had known Pablo and Jim and Terry and the team for well over a decade and really admired the business model. I've worked on a number of things with them. I think they were always highly regarded in the industry as really smart, really dug in on diligence and always sort of creative.

And so they -- and they solved problems for my clients, that when I was a banker around providing capital, flexible capital, long-term capital. And so I always really admired the team, thought they were smart and creative. And it was just one of those opportunities that sort of came about and where I ran into Pablo, and we sort of got to talking and it was one of these things where, to me, it was a fantastic opportunity to try something different, but still be in the industry I love, the industry I've been around for 25 years and work with a really smart, highly motivated, collaborative team that solves problems for every -- lots of different people and things in the industry, foundations, hospitals, universities, helping them recycle capital faster. And then on the pharma side, helping on R&D. And on the

(technical difficulty)

pharma side, launched capital, R&D, lots of different ways that we've come to partner with folks in the industry. And it allowed me to really sort of leverage my long-term relationships. So it's been -- I've been there about -- joined in March 2020. And it's been everything I had hoped it would be. It's been a great collaborative team and super excited about the opportunity that's in front of us.

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

If I could describe Royalty Pharma as pretty much a well-oiled machine, at least as it relates to the royalty industry, what are some of your thoughts about what more-- you can do more or do differently that your background is well suited for?

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

I think the 1 -- they obviously, prior to my joining the folks on the phone here, Terry and Jim have an unbelievable track record and Pablo, of course, of investing. I think I'd just add, so they have relationships very broad in the industry, I think I'd just add additional relationships, supplemental relationships, that at the end of the day, I think when we partner with people, we are long-term partners. For the most part, we're taking a view.

We want to provide capital and be a partner. And I think when you're talking about being a partner with somebody for 10-plus years, relationships matter, trust matters.

I think I bring additional relationships that can add value. I think -- and those opportunities, whether it be funding, straight royalty buying, supporting on M&A transactions. So it's really just supplementing the team that has already obviously been extremely well-functioning and just adding additional relationships, I think, is the biggest thing I'd bring.

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

Great. And then maybe to talk about being public versus not maybe a banker angle, but also if Terry could weigh in and just sort of what going public did for the company, what's different about being public versus not? Maybe from the banker perspective, had you been advising Royalty Pharma? And then Terry, what you've seen change, and Jim, from the inside? What's the difference? And why be public?

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

Well, I'll let Terry and Jim comment because, obviously, they can give the perspective of the difference between being when they were a private. I think I -- it's funny because we, as investment bankers, we're pitching the company around going public, how to position the company. And to me, the clearest example of why it made sense is just access to additional sort of pools of capital.

When you're public, you obviously -- to the extent needed, you can call upon public equity shareholders to provide capital that's needed. We haven't come to that point at this stage, but It is nice to have a public currency that if need be on a larger transaction or if we're really investing a lot of capital in 1 year, if we needed to raise capital, we could, I think that's 1 clear thing.

And then obviously, the -- a lot of the investors in the company had been with the company for decades. And so providing them some additional form of liquidity if they wanted it certainly made sense as well as a banker. I'd say those were probably the key reasons why we would pitch them.

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

And then I'll ask Terry, what did you notice and what was the nonbanker view?

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

Yes. I mean it's obviously -- it's been a transition because there's -- you're now dealing with public investors. And there's sort of obviously more reporting requirements. But I think that the transition has actually been pretty seamless. We had been thinking about this for quite a while, and the stars really -- they aligned. They were aligning last year, then the pandemic happened, and then we were able to actually go public in June and we realized how resilient the business was. We always kind of thought the business was resilient, but we saw it firsthand through the really initial part of the pandemic and felt confident that we could sort of bring the business public in June. We did that.

Obviously, another big thing was having access to the investment-grade bond market. It's much harder to do as a private company. And so when you're public, it's much easier to do that. And that's a very deep, deep, deep market. We were able to refinance in August sort of at all-time lows of sort of treasuries. And I think that so far, that's going well. And we also now have this revolving credit facility in place.

But I think it's been good. I'll also say I think being public has raised the profile of the business. I mean I think people heard of Royalty Pharma, but they might not have understood the scale. And I think just being a public company, it really helps for that part of the business as well. And I think has certainly increased, I would say, the dialogue that we've been having in the industry.

And I mean the stars are kind of aligning, right? Like there's obviously a big need for funding in the industry, but also now people recognize the role maybe more that Royalty Pharma can play in the industry.

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

So I hear the notion of a virtual roadshow and then sometimes in-person meetings are not required. So the system can thank you for that.

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

Yes. We have -- we actually -- I mean we had -- we did more TTW and roadshow meetings than -- I think the bankers told us than any other company in history. And we didn't do a -- we never met anyone in person. Chris has actually never worked in our office yet. We've known him for a long time, but he's never actually been in the office as a Royalty Pharma employee, which is remarkable. He's starting pretty well.

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

Jim -- go over to you, Jim, where I interrupted you.

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

Well, I was just going to like expand a point that Terry was making, which is it is kind of surprising for a company that, I mean we all have followed over the years and has done multibillion-dollar deals over the years. That I agree, I don't think our exposure level was what it is now back when we were a private company. And I think that's paying some unexpected dividends in terms of inbound calls and kind of the top of the funnel as we put it in terms of opportunities that we see. And it kind of helps open doors when we're making outbound calls that people can see we're a $25 billion company, and we're just kind of much easier to kind of find out about than previously when we were a private company.

And also, we're growing because of that. And because we're seeing more opportunities, we don't want to pass on anything just because we didn't have the bandwidth to cover it. So we've probably doubled our research team in the past 12 months or so. And I think that, that creates some integration, I wouldn't say, challenges necessarily, but some opportunities to kind of see more things and to apply kind of the Royalty Pharma way of analyzing new opportunities more broadly than we could before.

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

I would just -- sorry, just to interrupt just sort of on that sort of the opportunity set. I think I have to sort of -- Chris was being humble when he said -- when he just said, "I have some relationships." I mean Chris has incredible relationships in this industry. And I think it's been, for us, he's got really good instincts, really good deal instincts, too. And that's been a major -- I think a major competitive advantage that has already been paying off a lot in sort of the deals that we've been able to get done. So I think he was being understated as he always is, but it's been really important. It's been a huge addition for our business.

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

Jim, I wanted to talk about that funnel and you mentioned and maybe more broadly the R&D process. We can't make this entire call about the R&D process because you could obviously fill the time. But to a generalist investor that understands that a large cap pharmaceutical company brings in revenue from product sales and then deploys some of that into R&D to kind of replenish revenues longer term, how would you describe your -- your sort of R&D approach as a company and how it's evolved? How did you pick which therapeutic areas to be strong in? And then maybe we'll wrap that discussion up with sort of how data science might help inform that in the future. But let's talk about the here and the now in terms of just the basic description of your R&D process.

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

Sure. Yes. So I mean we describe ourselves as a different type of pharma company. And I do think it's useful to kind of look at us from that perspective. We have a pipeline that we need to populate and we need to have it robust enough that we can have, hopefully, a nice number of transactions ideally on an annual basis, but certainly over the next few years kind of basis. So that is a lot of what we do, and Chris is very involved here also in sort of stocking the pipeline and making sure that if anybody is out there considering a royalty deal, that we have a dialogue with them. And that we -- and that we're also following the interesting assets out there, so that we can anticipate a time where that company or whoever needs to raise some capital and we're kind of there in the dialogue with them. And we're -- and when they think of equity or convert or whatever, Royalty is sort of right there in the mix of that. I mean we have a slide that we presented recently that shows that synthetic royalties, i.e., using royalties to finance assets, is only 1% penetrated into the total amount of capital that is raised out there. So we're very underpenetrated right now, but we really sense that we're being noticed for reasons that we've said before. And also because I think we're just being noticed for funding high-quality products.

Like if you look at our portfolio, there are a lot of kind of first-in-class, best-in-class assets in it. So -- but that doesn't really happen by accident. It happens because we kind of take this sort of bottom-up and a top-down approach. So the bottom-up approach is to make sure we know of all the royalties out there, and we kind of know the providence of all the assets that are out there. So any university that's had a hand in a royalty, we want to -- in a product, we want to see if they have a royalty and then have a dialogue with them.

And then from more of the top-down approach, it's kind of what are the products out there that we want to be involved in? And how do we get involved in them? Do they have a royalty associated with them? And if they don't, we'll have a dialogue with them. But just coming up with sort of a list of interesting potential assets requires deep research in itself and deep knowledge of the field. So the team here, we -- and I was a former equity research analyst myself, as you probably know. But here, part of the appeal of going to a Royalty Pharma is all that I do with my time these days is research and look at products and get on the phone with experts and doctor calls and probe them on what do you see as really interesting and promising that's coming through the pipeline and walking the halls of ASH and ASCO and AACR and wherever else and trying to get at like where is the next quality product going to come from?

I mean an example of this is Imbruvica, which we invested in when it was Phase 2, which kind of sounds early. Well, it was in a Phase III trial, but it had only had Phase II data at the time. And we bought $540 million into at a time, which was a pretty large amount for a product that only had Phase II data. But we were able to get that conviction because we've been following that molecule for 5 years up to that time. So we had this like strong sense of what the data looked like and what people thought about the data and could just really kick the tires on it.

And that is our goal with every asset out there, to kind of know to follow that long enough and have really like the leisure as a group to really focus on kind of all of the aspects of the products that are coming through the system.

So I think that's kind of the secret sauce of our R&D process is to just be so embedded into the field and so knowledgeable about the up-and-coming assets that we can get conviction early on them and conviction to put $3 billion at a time into the CF assets, for example, or $1 billion at a time in Xtandi.

So it is differentiating for us to really be able to put large sums of capital to work at a time. But in order to do that, you have to have high conviction. So that's the goal. And...

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

The data science piece in just a minute because while we're talking about this how do you populate the P&L with additional assets and with the brains and the people involved to create Imbruvica, for example, Chris, do you see more of an opportunity to supplement what I'll call that sort of more organic sort of strategy with more M&A than the company has done historically? Are corporate issuers and investment banks sort of viewing you guys as friend or foe? Just maybe talk about how M&A could supplement, what Jim and the team have been doing. And then we'll come back to data science, Jim, and how that's informing the future.

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

Yes. I think there's 2 -- I think there's 2 business opportunities that we've done that I think are going to grow. The synthetic royalty that we did with Biohaven and most recently, BioCryst, and M&A, where we are supporting on the M&A side.

And I think the M&A situation, I think we've never really seen mid-cap to mid-cap biopharma M&A in the sector. We've talked about it for decades and it never really come about, and that could change. And we think we could play an important role there where we can create a synthetic royalty providing the cash needed to deliver to the target shareholders upfront. And that could be an interesting growth opportunity.

The synthetic royalty side, we think it's just unlimited. And we talked a little bit about this on the IPO roadshow. And that's something that when you're advising CEOs, CFOs and Boards, as a banker, you weren't really seeing 5 years ago, certainly not 10 or 15 or 20. And I think from the -- a great example of that, right? Biohaven has been a great example of that. And we think there's unlimited opportunity there. We're just tapping the iceberg now.

I think banks obviously would probably rather see the companies themselves go out and do an equity offering and raise the capital that way. But when we sit down and really can engage with CFOs and relationships on the Board, and when we really have the opportunity to talk to them about comparing the cost of capital, doing a synthetic royalty versus selling equity, when the market's not necessarily valuing the asset fully is we're going to really value the asset fully.

It's astonishing. Their eyes are open as the huge advantage of doing a synthetic royalty as opposed to going and raising equity capital. It's a huge cost savings to the company and to the shareholders. So we think that we're just scratching the surface there.

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

That's helpful. Jim, so to supplement this organic R&D process you described, where we have people spending time in the trenches, attending conferences, following molecules, I noticed you decided to go deeper into data science with a key hire or several hires over the past year. Can you talk about why you did that and how that will inform the future strategy?

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

Yes. So we had, I think, a pretty good track record of analyzing products, finding products, forecasting products. But a lot of that was done, I'll call it, manually. And we just live in an era where there are systematic ways to do things and systematic ways to kind of harness data. I wouldn't say that we're using big data yet, but we're using bigger data than we were, right. And it just -- we wanted to be at sort of pharma kind of level or sort of the -- all of the cutting-edge approaches that the industry is using right now to help their forecasting and help their competitive intelligence and product-finding opportunities. We needed to make sure we were availing ourselves of. So we hired Sandy Balkin, who is kind of known throughout the industry and spent some time at Truist sharpening his skills. But we found that he has really been able to overlay like a much more modernized way of using claims data and electronic medical records data and integrating those. And we think we're going to have some real insights and hopefully, more -- even more conviction when it comes to our forecast by being able to have that systematic approach to bringing in all of the data out there and doing it at a really sort of pharma scale. We now have a pharma scale budget for data.

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

Jim, a lot of the activity in the past has been on approved products. You mentioned some wins on pre-approved products. What are your goals in terms of doing more pipeline deals versus marketed products? How might that mix evolve over time?

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

Yes. I mean it's going to be a bit opportunistic. I mean it kind of depends on -- as I said, as we follow kind of the leading assets out there, it kind of depends on this like convergence of at what point do we think it becomes investable and kind of gets over a hurdle in terms of either sort of like data card turned over or data card on a comparable molecule turned over or approval in a small indication on its way to a big indication.

And that may not happen for us until it's approved. So it's really just kind of a question with respect to the asset and kind of where it is in its own life cycle. And I said -- and it's also a convergence of that with sort of the holder of that asset and kind of what is the right time for them to avail themselves of what we offer. We think that we have the lowest cost tool for them to choose from in the armamentarium. But sometimes, they've got enough cash and they don't have to do that now, but they want to do it a year from now. So we sort of keep tabs on them.

So it's kind of a -- it's sort of -- we want to create win-win deals because that will be best for our business and also for the royalty as a financing mode industry is for both sides to feel like they achieved something, achieve their goals.

So that's why I think that it's important that we're solving problems for the other side. And we need to be in a close dialogue with them to say, "Yes, your asset is investable. And is this the right time" or "we think this is the right time for you to do a royalty-type financing deal." For some products, that's pre-approval, for some products it's post-approval. It's a little hard for us to say in a vacuum kind of we're going to do 40% of this or 60% of that. But I would say that as Chris says, the field is opening up right now in terms of companies realizing that this is a very viable way to finance their companies.

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

Terry, you guys were very clear about your capital-deployment goals and the pace of deployment, and you frankly put some points on the board since the IPO and made some sizable deals. Can you just remind us of those capital deployment goals? The financial position you have to support that? And then maybe how you model future returns versus what you've generated historically?

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

Yes. So what we've said was that between '20 and 2025, we expect to deploy at least $7 billion. Obviously, 2020 was a strong year with around $2.3 billion of capital deployed. So we're off to a really good start. A lot of that was sort of post-IPO as well, which was great to see.

But as you -- we've also been pretty clear that the business is uneven. And so we could go through several quarters where we don't make any transactions. And that's by design. That's really because we really want to make sure we keep that really high hurdle rate in terms of the types of assets that we invest in and be really selective. Last year, we think we screened almost 300 things. We actually transacted on around -- sorry, 3%. So that is the selectivity.

We are seeing that the funnel is just getting bigger. So that's a really good trend. But I think that -- I think we'll wait and see as far as capital deployment over this year and how it relates to that $7 billion guidance. But we feel really good about the momentum we're seeing in the business.

In terms of access to capital, we finished the first quarter at 3.4x total debt-to-EBITDA. So we have leverage capacity. We've sort of said that we had planned to operate in a band of between 3x and 4x. We've actually been doing that for almost 15 years. So we've sort of found that sort of optimal cost of capital for our business. And we also had $1.8 billion of cash at the end of the quarter. And then we have this $1.5 billion revolving credit facility that gives us even more financial flexibility.

So I feel like the capital is there to pursue our goals. And we feel really good about our overall position and the momentum we're seeing.

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

And then on the return piece, what have your IRR's been historically. How do you model them in the future for marquee versus pipeline or however you want to break them down?

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

Yes. So we've been pretty consistent since, call it, 2012 when we started investing in development-stage products. We've been consistently targeting returns for development-stage products that are in the teens. And obviously, the variability is going to be much wider for those products, could be 0. But it also could be higher because there's a lot of things that can happen over time with label expansion or geographic expansion or whatever.

And then for approved products, we're targeting high single-digit to low double-digit unlevered returns. And we feel like that's been what we've been -- been looking at things since 2012 time frame. And when we look at what we invested over the last couple of years, we're right in that band. Hopefully, we're -- hopefully, we can end up doing a little better over time. But that's the target.

The key thing is that, that's unlevered. And so with leverage, when we -- if we invest in an asset and say it's a -- pick a number, $500 million investment, and your -- and it's a 10-year investment and your -- you fund it with 50% cash and 50% debt. And it's expected you're underwriting it at, call it, a 10% IRR.

That -- when you look at it on a levered return basis, the returns are much, much higher. And that's just the sort of structural advantage that we have in our business, the ability to use investment-grade debt and to borrow at attractive rates because of the scale, because of the diversification, because of the cash flow and the predictability. And that really allows us to deliver much more attractive returns to the equity.

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

Let's talk about a couple of generalists kind of macro questions that, that relates to that we get from investors on all sorts of pharmaceutical companies. One is how would rising rates affect your model and the other key point might be as tax reform is bandied about, how does that affect Royalty Pharma, if at all, from the macro?

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

Yes. So why don't I -- I'll sort of -- I'll take tax first, then I'll touch on rates as it relates to Royalty Pharma's balance sheet. And then maybe Chris can touch on rates as it relates to the opportunity set in the industry. So from a tax perspective, we feel very comfortable with our tax position now, we're setup as a pass-through. The reason that we pay no U.S. corporate income tax is because we're not involved in a trad or business in the United States. And then royalties are paid from U.S. marketers into our Irish subsidiary without any withholding because of the U.S. Irish tax treaty and that Irish subsidiaries owned by the U.K. plc, which is a public company.

And so we feel that's actually been the structure, largely the same since 2003, and it's well vetted, and we feel very, very confident in the structure and wouldn't expect that there would be any changes on the horizon. We haven't heard of anything.

With regards to rising rates, So we were fortunate to refinance all of our debt in August 2020 at a pretty low point for U.S. treasuries. I think we missed like the sort of lowest point by 2 weeks. So that was sort of 10-year at 50 basis points. We -- when we refinanced it was 10 years at 64 basis points. So still historically, almost all-time low.

And we were a new issuer at the time. And so bonds are issued on a spread to treasuries. And what we've seen over time actually is while rates have increased, the spread has contracted significantly. And so we wouldn't think that even if we refinance right now, which by the way, we're completely fixed with a weighted average duration of around 12 years or so.

So we're very lucky that we are not in -- we're not exposed to that floating rate risk right now. But if we refinanced today, we don't think that it would be materially different. Our overall sort of interest expense will be materially different than what it was in August because the spreads have contracted.

So I don't think -- we're not particularly concerned about it. I think when we think about levered returns historically, right now, our weighted average coupon is 2.125%. That's obviously very low. We think about when we would plug in sort of a levered return into our model, it's more like in the 3% to 4% range is what we think of as normal cost of debt in normal times. And the returns that we can generate with that are still extremely attractive on a levered basis.

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

Chris, do you want to weigh in on the rate environment as it relates to everything else?

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

I mean I think the rate environment, to the extent it creates any volatility in the biotech sector itself on the equity side, that could lead to additional synthetic royalty opportunities for us to come in and finance. Once again, we don't need that volatility. We've done a lot of the Immunomedics, Biohaven, BioCryst. Synthetic deals were all done in sort of very strong equity markets. And so we don't think we need that volatility to be there to really see this synthetic royalty opportunity come through.

Once again, just because when you take a step back and think about the cost of issuing equity, say, when Immunomedics did their deal with us as opposed to doing a synthetic royalty. When the market's really sort of not giving you credit for Trodelvy and the potential of that drug, whereas we do, we saved an immense amount of value transfer for Immunomedics shareholders at that time by doing a synthetic royalty. So we don't need a swing in the equity market for that as that word of that attractive cost of capital continues to grow in the marketplace, I don't think, anyway.

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

Sure. Another environmental question, Chris. To the extent early stage companies have pretty good access to IPO window, SPAC, et cetera, is that then first sourcing deals for you? Or do you not really know what's the difference because you have so many different kinds of opportunities?

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

Yes. I think we just -- I mean right now, we -- the opportunity set is just immense. As Terry, I think, referenced or Jim, we have 300 sort of things we screened last year, and it's -- I think it's -- I'm going to guess it's going to grow this year. I mean what you said, Jim and Terry. But I'm guessing. I mean it's just -- and maybe the point really is, like I said. And I don't know if it's really because of the IPO itself. I think Terry made the point, our name is out there and people are like, wait a second. Wow. I mean I didn't realize that they generated free cash flow of $1.5 billion, and they've got a $20-plus billion equity value. Maybe that word is spread and more boards and management teams view us as an alternative.

But I think the -- it is a -- the opportunity set is growing, and I think bankers are out pitching us more and more even to the extent there's competition out there, right. That helps just get the word out that the marketplace is so immense. We don't really need sort of pre-IPO or SPAC companies. That's not a big part of the business anyway, just given the stage of development of many of those pre-IPO companies.

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

You don't need other people to have pain for you to have success is the bottom line...

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

I was going to say also as it relates to company formation, that's great for our business. Because we probably weren't going to provide capital at that stage anyway. But if those companies are successful, which hopefully a lot of them are, that's going to be their smallest capital raise that's going to be sort of IPO. They're going to need a lot more money as they progress, and I think that we can be a real partner for these companies as they move ahead. So that's just going to expand the opportunity set 3, 4, 5 years from now.

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

Yes. So you mentioned diversity of your revenue streams, and I'm sure that's a key part of the bull case for investors and analysts. But the one question that's come up from time to time is about your relationship with Vertex and some concentration there. So perhaps this is a Jim question, maybe just give us a quick refresher on what the relationship is and sort of the pipeline angle there of what the current deal includes, what it doesn't include. And why that may or may not be a threat from your perspective. Just a little one-on-one on that subject, I think, would be helpful, particularly for newer investors.

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

I mean this is a legacy Terry deal, and he does such a nice job answering this question that -- I'm going to let him take that one.

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

Yes. I had a life before CFO working on Jim's team and this is one of the things I worked on. So the relationship with Vertex, they're like all of the marketers, they pay us royalties. I think that, that's kind of the extent of the relationship there.

As it relates to the sort of franchise, yes, it's an important component of our business right now. It generates a lot of cash flow. But I think the thing that we've seen over many years in many cycles is that we're constantly diversifying through new investments, and that's going to be sort of a natural thing that's going to happen. And then we also have, within our portfolio, a lot of products that are very early in their life cycle with tremendous growth ahead of them.

So I think that you're going to see natural diversification through growth of existing products in the portfolio and then through what we're doing every day, which is trying to find the next batch of great new royalties.

As it relates to the pipeline products within Vertex's franchise, it's early days. We have seen what Vertex has said, that they think that they will be advancing a triple combination that could have a lower royalty burden. As it relates specifically to one of the components, deuterated Kalydeco, we disagree. We think that deuterated Kalydeco is simply Kalydeco, and it should have -- it comes with the same royalty burden that Kalydeco comes with.

So that's -- but it's really -- at this point, it's still pretty early days. We don't -- they're not in pivotal studies yet. We'll see what those trials look like. We'll see if they -- see how long those trials take to enroll. And then whether the products work, whether they're safe, when they're efficacious, the reality is Trikafta is a remarkable drug that is 30 years in the making and has provided a tremendous benefit to CF patients. That sets an extremely high bar. Our view is that it's going to be a really important component of the CF market for the foreseeable future and will be an important component of our business over the long term as well.

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

Great. Let's spend the last few minutes on some more futuristic stuff. I realize the deal on the MSCI front is not going to be a big revenue generator in the short term. But perhaps you can talk about how that came to fruition and what it represents in terms of the kinds of things you might be thinking of doing and doing that we as analysts and investors may have never thought we were doing. Is this the tip of the iceberg of these kinds of things? But let's start with just the thrust behind the MSCI deal in the first place.

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

Yes, I can take that. So we did bring in the data science team recently. And we do think that this MSCI collaboration is a good way to monetize what some of the products that they're making for us internally and some of the analytical tools that they're able to build for us. We had a relationship with MSCI, Pablo and the CEO of MSCI are friends, and I think had over the years, talked about the similarities of our businesses in the sense that creating indexes for the purposes of measuring performance and also creating ETFs, which is what MSCI's business model is. That is essentially creating this recurring stream of revenue. And I think Pablo, who is an excellent visionary and starter of new business ideas, said that's so similar to our business that we should find a way to collaborate. And I think that made sense from the MSCI standpoint because I think we're known as being sort of life science knowledgeable people who should be able to create some interesting groupings of companies.

So that's really what the project is, to come up with interesting groupings of companies. And I think it's kind of going to be a nice way to kind of leverage not just what the data science group here is doing, but also the -- some of the byproducts of what the research team is doing because we're all pretty embedded in the industry and getting to know companies and new companies. And so it's sort of an offshoot of things that we were doing already. But an exciting growth opportunity for us, and as Pablo has said, it's kind of like a royalty rather on -- it's like a royalty on the industry than a royalty on individual assets and probably lower risk by virtue of that also.

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

The potential nature of it is also really interesting -- the number would be large enough. You pick 2 therapeutic areas between the 2 companies. Is that the limit of the relationship? Or should we -- can we dream that you might broaden over time depending on where thematic interest lies in biopharma?

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

Yes. I think Pablo has recently commented that we have sort of 5 or 6 that are -- 5 or 6 sort of themes that we'll be hopefully rolling out in the next year or so. So I think it's going to be really interesting in bringing more attention to those groupings of companies and really facilitating further investment into those companies. I actually do think that in a building of these indexes and ETFs as a way to kind of get capital to those companies, which is great for the overall space.

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

It sounds like this effort is really an offshoot or an output of what you do in R&D and what the data science team is saying. Can it come full circle and somehow inform the funnel or enhance the funnel for your core business?

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

I think it -- I expect that to happen. Yes, I think that would make total sense. And I think as we're kind of mining, data mining the world for all the companies that kind of fit a particular theme, that we will definitely come across companies that were not on our radar before. And that's another way to come across interesting new ideas.

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

I think this is a good spot to wrap up, folks. I really appreciate your time and following the journey that's been much longer than IPO until now. But for those of you watching now or reading later, hopefully, this is a good appreciation for what the company does, what its core competencies are. You obviously have a flavor of the caliber of a subset of the team here.

Again, I want to thank you guys from the Royalty team for letting us do this. Wish you the best of health and success. And thank you to our Truist clients for joining us. Be well.

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

Thanks, Gregg. Enjoy it.

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

Thanks, Gregg.

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

Take care. Bye.
