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Chris Shibutani

PRESENTATION

Chris Shibutani

Okay. Let's get underway. Apologies for the slight delay racing through the halls, knocking off not too many casualties. Welcome to the Tuesday afternoon session for the Goldman Sachs Healthcare Conference.

My name is Chris Shibutani. I'm one of the members of the research team cover pharmaceuticals and biotechnology, really, really pleased to have Royalty Pharma with us here today to participate in the conference.

The poor victim on the stage with me is Terry Coyne, Chief Financial Officer. I see that I think Marshall is here in hiding, George is hanging out too. So there are a lot of very smart folks, which actually brings me to some -- an introductory comment that I thought while we're seeing here amongst friends.

Terry, you and I actually go way back. I've always been a grumpy old fool. But I think you were basically a child back maybe 15 years ago working at JPMorgan when we were sort of under the same hood. And I asked this in the context of the fact that so many of the intelligence here at Royalty are former Wall Street Royalty themselves.

Talk about the pros and cons of like, obviously, it equipped people with some sense for the terrain and some of the mathematical equations that are involved. But there's a translation that's probably required and a skillset. You've all been part of that journey extensively. Frame a little bit what drew you there, what you learned and why you're the right dude to be the CFO?

QUESTIONS AND ANSWERS

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

That's -- it's a great question, Chris, and thanks for having us. So I've been at Royalty Pharma for 12 years now and you're right. I was on the sell-side before doing biotech equity research. I think what we found is a lot of the skills are very translatable in terms of being able to obviously do the due diligence and the financial modeling, but also -- it's a people industry business as well where you have to have really good relationships.

And so that -- I think all that skillset was very helpful. I think me personally, I use that. I was on the investment team for nine years when I was at -- when I joined Royalty Pharma before I became the CFO. And one of the things that drew me to the business was the sort of really long-term view and the incredible focus that we take in our due diligence process, where we could spent months or years following an asset.

And I think that creates this really great sort of ownership, where when you ultimately make an investment, you kind of feel it in your bones. You know this asset. You know why it's going to succeed. And so that's a unique aspect of our business. It's very different than traditional buy-side or sell-side. I think it's -- and it's a really big part of our long-term success is that long-term view that we take.

Chris Shibutani

Right. No. And I think exactly what you've described to me, frames, part of the discussion that we've been having with investors since we launched coverage in terms of why have an investment position? It's exactly that sort of the difference in the arc of investment thesis. It is to give exposure within a fund to that kind of philosophy amidst an environment where we're going from quick-to-click headline to catalysts and by the quarter and mark-to-market.

So I think that's something that's very vital. And it also leads to another typical question about the business model, which is just sort of the prominence in terms of positioning you guys have within the Royalty ecosystem, right, which still seems a little bit like Frontier lands in some respects. It's been going for decades, so there's no secret there.

But what is the sustainable competitive advantage? What is the moats and why can't some other name brand x, we could spin a few that have just piles of capital can't come in here and generate some kind of pressure to the business. The resilience there, talk to the pros and cons of that dynamic and why you believe you have a sustainable advantage?

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

Yes. So I think it's -- there's a couple of factors. So one is sort of the platform that we've built, the really deep due diligence process that we have; the scale where we can -- we really can differentiate ourselves and do the biggest deals, where for other companies in this space, investing $1 billion or even $500 million would be extremely challenging.

And for us, it's -- that's actually right in the middle of the fairway for our business. Our cost of capital is low. We think that's a sustainable competitive advantage, where we were able to borrow at record lows in terms of rates and our weighted average cost of debt is 2.2%, which in this environment looks really nice.

And then it's the people, it's the relationships. We've been doing this for 25 years. It's all we do is invest in biopharmaceutical royalties. We're not some other business that's investing in a variety of things, real estate, infrastructure; whatever. This is all we do. And we have really great relationships across the industry.

So we continue to believe that we're optimally positioned for the opportunity we see ahead of us. It's not to say that competition won't be there, competition is a good thing. The opportunity is huge. The funding needs of the industry are massive. The more that other companies are out there talking about royalties as a way to fund the industry.

We think that we're always going to get a look. And we think that if we want to win, our cost of capital, our relationships should allow us to differentiate ourselves. And long-term, I think there's room for a lot of players in this space, right?

Chris Shibutani

Do you allow for the potential of that competition would have the possibility of compressing returns longer term? And I ask this in the context of some, I think, really vital information that you shared about sort of the IRRs that you've been able to achieve historically and thinking about how sustainable that is.

So what are the dynamics that would feed into sustaining the kind of IRRs that you've had?

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

So I think it's important, competition isn't new. I mean people have known that we've had a successful business for quite some time. And we've been hearing even when we were on our IPO roadshow in some of the best biotech markets of all time, your returns are going to compress.

And we haven't seen it. It's -- we're maintaining that same discipline, the same hurdle that we've had where we're targeting sort of high single-digit to low double-digit unlevered returns on approved products and teens returns on unapproved development-stage products. And so the bar for us isn't changing. And we haven't really -- certainly hasn't led to fewer deals.

So we feel like it's -- we'll continue to have those targets and I don't see that changing anytime soon.

Chris Shibutani

Another really helpful aspect, I think, for investors to pay attention to your story is that it creates a finger on a pulse of the broader environment. Sort of like the biotech ecosystem financing environment, clearly challenging, just the deal environment as well.

Obviously, it's not an exact parallel with the M&A environment per se. But I think you could draw some connections over there. Talk to us about the house view that you guys have about the current environment, particularly for biotech deals. It's a topic that's very much embedded in the business strategy, but what are we seeing right now? Where are we?

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

Yes. So we're certainly -- the opportunities, as you can imagine, we're seeing a lot of different things. The pipeline is very robust. A lot of things come and a lot of things also get screened out because the bar is really high for us to spend time on it.

And we need to check a lot of initial boxes for us to make that investment where we're going to go a little deeper. But what we've seen -- so just to take a step back, when I first joined Royalty Pharma in 2010, royalties as there was -- it was mostly sort of third-party royalties. So you go to a company or you go to a small biotech company that had a royalty or a university, and that's where a lot of our deals came from.

And over the last five years, we've seen this shift where we, where synthetic royalties have become a bigger and bigger way that the industry thinks about funding itself. And so that trend has been really positive for us over the last five years or so.

If anything, what we see right now is that this is just accelerating that trend. But we are -- the bar is really high and it's going to stay high. And so there's a lot -- there's obviously been a ton of company formation over the last couple of years.

The needs in the industry are high. But I think for us, we're still going to be really selective. And while the top of the funnel might get a little bigger, I wouldn't be surprised if the -- the percentage of things that we transact on actually got a little smaller.

Chris Shibutani

I see. That's interesting. One of the events that -- one of the takeaways from the event-- and you guys hosted a Sentinel Investor Event. It was really well done. George and Dana created something that was basically felt like the cross between a royal wedding and the Tony awards.

But you should go back and see the transcript, do the replays. I think it's very informative, very comprehensive. A highlight takeaway was the whole synthetic royalties product and that growth, which you just touched upon here. And this trend that we're seeing, what is driving that? Is it sort of higher visibility or success stories? I'm not unconvinced; I'm certain that's the case.

But there was such conviction in the sort of like the verb in which those were said. So how do we acknowledge that can continue to happen?

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

There's definitely a network effect. I think it's -- we're out there talking about it. Our profile in the industry has changed since we've gone public. People hear from our investors that are also their investors say, you should be thinking about royalties.

And then there's some really good success stories. There have been a few over the last couple of years, like, obviously, most recently with BioHaven, Immunomedics a couple of years ago. I think that those -- that creates something that we can build on. And then obviously, also the capital needs.

We showed a slide at the Investor Day that showed a couple of the companies that have had really strong performance over the last couple of years, like BioHaven, BioCryst and Cytokinetics, where royalties have accounted for around 1/4 of how those companies funded themselves over history.

And that is a trend that we think could play out for a lot of the successful biotech companies where historically, it was equity first and maybe some of them could access debt or converts and then partner. And now royalties are a new option that we see for the industry. It's something that we think can absolutely grow. And it's great for us, for our business because we're not relying on things that already exist.

We can go out there and create them. We can be really targeted and go to the companies that we think are going to be the next generation, the next BioHaven or Immunomedics and try to work with them to be their partners along their sort of growth journey.

Chris Shibutani

Got it. Okay. You're the CFO. Let me try to keep you happy. Let's talk numbers. Capital deployment, guidance that was provided at the Investor Day, you provided a guidance to be able to do $10 billion to $12 billion by 2026.

We were not surprised by the elevated level from the IPO, given the track record and the trend that that was going from a trajectory standpoint. There was a suggestion actually. And we believe it, that this could be somewhat conservative. So can you talk about what factors you might consider to determine whether you would deploy beyond that $10 billion to $12 billion guidance?

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

Yes. So maybe I'll just take a step back for the people that don't know the history. But when we went public, we guided to over $7 billion over five years. And in that -- in the sort of first two years of being public, we deployed $5.9 billion. So obviously, well in excess of that number.

We raised it. And we raised our forward five-year capital deployment target at our Investor Day to $10 to $12 billion over the next five years. We -- that's more or less consistent with the trend over the last three years. And I think we want to make sure that it's -- we put out a number that we're very, very confident that we can hit.

One thing that over time that we've seen in the business is that it can be a little uneven. There could be periods where it could be $1 billion or even less. And then cash builds and then we deploy a lot of capital, where it could be many multiples of that.

That sort of patience is core to what we think will make us successful over the long term. But in terms of where the upside could come from? Certainly, synthetics are an area of upside. Maybe there's a couple of big deals that come along. Those are less predictable. That's one of the nice things that we've seen over the last couple of years is that the market actually feels deeper.

We're seeing a lot more $300 million to $500 million, $700 million type deals where we're not relying on the $2 billion or $3 billion deals to sort of -- to achieve that sort of level of capital deployment. But those deals -- every so often, they will come along.

And then, another area that ends up being a little bit less predictable is M&A. And where we can participate like we did with the MorphoSys transaction in the summer of 2021, where we helped MorphoSys, acquire Constellation. We got in exchange; we gave them up to $2 billion or so.

And in exchange, we got a number of different royalties, including a royalty on J&J's Tremfya in that transaction.

Chris Shibutani

Yes. No. I mean you highlight that. And that deal really does stand out in terms of -- in so many domains in terms of the size, the complexity, the creativity along those lines.

And then it makes me reflect back in terms of can you do it again. Do you have the capacity, the manpower, how exceptional or bespoke with that as an opportunity? Or is that a blueprint for more like this? And so it engenders more creative thinking on the part of the folks that you partner with? What does the future look like, more MorphoSys coming?

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

I think being creative and coming up with solutions to help our partners achieve their goals is fundamental to what we do and our long-term success. And we've done that throughout history, coming up with new ways that we can help fund this industry. And so absolutely, we have the capability.

Things like that, the stars need to align that was a three-party deal. But we think we have the team to do it. We have, obviously, the balance sheet, the big diversified base portfolio to go and go out and make those types of investments for sure. I think that we can continue to do those things.

But I -- standing here today, I couldn't tell you where those will be. We're always opportunistic. And I've seen over the years, things come into the pipeline. And we think, man, this is going to be is like a multibillion-dollar opportunity and then it's gone.

And for whatever reason, it doesn't check out or if they decide to go in another direction. And then another thing comes in. And so that's the beauty of the business. And so you just kind of learn to be patient. But when you see -- when an opportunity does really feel like it's coming together, you put everything behind it to make sure that you can capitalize on it, right.

Chris Shibutani

Yes, as you were describing, making those comments, I thought about from my years on the buy side and thinking about have to have a self-discipline, right? And as you're going through your screening and your evaluation process and making the go and maybe and not quite decisions, has that cut off, the decision making to say no, changed over time?

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

No, I wouldn't say it's changed significantly. I would say as we've moved to looking at pre-approval investments, we're probably saying no a little bit more than we were before because if it's an approved commercial product, then it's probably more a matter of what's the forecast and what's the sort of discount rate. And you can usually come up with a value for something like that versus something that where there's real clinical regulatory risk, that's probably an area, where we might be taking a hard line and just saying we just can't get comfortable with it.

Chris Shibutani

And let's talk about that. I mean if we think about the past decade, the mix, so to speak, of the commercial deals versus clinically de-risk not yet approved versus even earlier stage that has transformed. I get the sense that there's been a little bit more appetite for risk, clearly within the disciplined parameters, the due diligence that you guys do. How do you feel about -- how does the team feel about where that's at?

And if you had to say maybe where that could lean further and shift towards what would you

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

it's really hard to say.

Because we are -- we always say this, but we really mean it -- we are opportunistic.

Chris Shibutani

The folks knocking in your door must be on the earlier end of the spectrum, because a lot of the folks in the broader community are -- because they're being measured by this year and no one feels confident about this year.

Chris Shibutani

I mean we're going to have 75 basis points on all this. But you guys are thinking about the bigger picture longer arc isn't there an opportunity to go earlier?

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

So it depends -- I think -- at our core, we're focused on things with real proof of concept. And so we've always gravitated towards Phase III preapproval where there is already a Phase III or maybe they're waiting on a second Phase III and we can invest preapproval, help them fund the launch and then approved.

In terms of going significantly earlier, I wouldn't expect a real shift there. There are situations where maybe we can invest smaller dollars in a Phase II trial like real small dollars, where there's the option for us to expand that investment and fund the Phase III trial if it hits certain parameters, things like that.

And so that's an example we have done. We did a deal like that in the past. And they didn't end up moving forward to Phase III. But I think our focus is going to be more on the later stage stuff.

Chris Shibutani

And I bring that up in part because at the Investor Day, you did introduce the notion that the eyes are looking at a broader set of therapeutic areas potentially and specifically mentioned were new or novel modalities. The term brain diseases was used.

Areas, is in oncology as well that are kind of next generation. By definition, these are still sort of works in progress from the scientific evolutionary standpoint and therefore, to wait into those waters would mean taking on earlier-stage risk.

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

Yes. So I think what you would probably see is that we would wait for those things to mature a little bit more before we're probably going to be comfortable making that kind of an investment.

Chris Shibutani

And then to make those decisions -- so I'll give it that you guys are super smart. And -- but then an element of being equipped with being potentially smarter than others is that your process as a team, you often are able to engage in negotiations or contemplate possible deals through nondisclosure agreements, et cetera.

Is it fairly base case that you're able to get access to data, et cetera? And so I think when you interact with investors in the broader community, and then we're all sort of thinking about an outcome. It doesn't need to be binary, but how things will necessarily progress? Should we be looking into the eyes of Marshall and seeing whether he blinks or whether he has good eye contact or sort of it seems as if you guys have a level of being able to do more sort of surgically invasive due diligence that makes you smarter, fair?

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

Marshall has gotten a really good poker face over the years. But I think we -- it depends on the deal in terms of the access to information that we have. If it's a synthetic royalty, where we're working directly with the company, then yes, we're going to have access to everything that they have access to.

And we're going to spend a lot of time making sure that we're comfortable looking at all of the patient-level data, the protocols, the FDA minutes, everything that you can imagine, we're doing. And we've gotten really good at that over the years.

And then there's other times where it's a third-party royalty. And we're using the same information that other investors would -- public investors would have. But we probably are maybe just going a little bit deeper because we can have that level of focus, which is unique.

Chris Shibutani

Okay. Let's transition to some topical areas. Specific products assets within the portfolio, one to address is cystic fibrosis. And just to make sure that on this day, June 14, we get the latest commentary.

Can you help us understand what next steps we should focus on? So for instance, have you engaged with Vertex on the question of the royalty rate for VX-561? Or would that be a process that would only commence pending, say, the revelation of positive Phase III data from the trials that are ongoing? How should we think about who moves their cheese next?

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

Okay. So on CF at a high level, we're -- we are really excited about the long-term potential of our investment in the cystic fibrosis space. We have royalties on the four major approved products that are marketed by Vertex right now, particularly Trikafta is one where we see it being a very important long-term product in CF, given the significant clinical benefits that it showed in terms of lung function improvement.

But now we're even seeing some of these long-term benefits start to play out. We always thought that this would happen. But it's really encouraging to see the hospitalizations declining, lung transplants declining, deaths, hopefully, over the long term, this is something that really will extend patients' lives.

And so it sets a really high bar in terms of how to develop something better. In terms of your question related to Vertex or discussions, it's just -- we really just can't comment. I know investors want to understand those dynamics. And we -- as you can imagine, it's just really hard for us to comment on anything about direct discussions with Vertex.

Chris Shibutani

No, that's understandable. I would get trashed if I didn't ask at any rate. There was with intention at the Investor Day, however, a bit of a conservative component of assumptions built into the guidance with regard to CF. So should we then think about that it's applied potential in the event that the next-generation triple does not reach the market? Is that the right way to sort of see the mosaic (inaudible)?

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

So what we -- just to remind everyone, what we said was that over this decade, we think we can grow our top line by 10% or more. And what we said is that, that reflects a range of scenarios for the cystic fibrosis franchise, including downside scenarios.

And so beyond that, what level of 10% plus that is under scenarios that are not downside scenarios, we haven't elaborated. But obviously, we're comfortable that even under those sorts of downside scenarios we can deliver that type of growth through the decade on our top line.

Chris Shibutani

Okay, great. Let's shift to Alzheimer's, gantenerumab. I was running late because I was coming from the folks over at Lilly, the CNS division there. It's definitely one of the courageous efforts to go out into the galaxies of space of thinking about that.

So I was late because it took a while for my pod to come down to earth here. But gantenerumab -- we're also taking some conservative views from a guidance standpoint, excluding it from guidance. Can you frame your views ahead of the readout of what we're going to have in the second half of this year, probably Q3, graduate 1 graduate 2 studies from Roche?

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

Yes. So for people that don't know how that product came in or that potential product came into our portfolio was actually part of the MorphoSys deal, which was a much larger deal, where it was really the cornerstone of that deal was our royalty in Tremfya, which is a great product marketed by J&J with a lot of growth ahead of it.

And then we also were able to get royalties -- potential royalties on a few pipeline products, four different pipeline products. And gantenerumab is one of them.

In the context of that deal, we had this really nice base sort of return that we were comfortable with from Tremfya, where whether gantenerumab worked or not, it was going to be a nice investment for Royalty Pharma.

But gantenerumab provides this, obviously, very big upside potential, but it's very risky. It's not like when we made our Nurtec investment we had a lot of confidence that that drug was going to get approved that the Phase III trial would readout positively and that it would be approved. This is different.

It's different in terms of the risk factor. But the upside potential is really significant. We see multi-blockbuster potential there because of -- because it's Roche because, hopefully, if it works, it will have sort of definitive positive Phase III trials, because it's subcutaneous.

We also have a royalty on the brain shuttle version of that, which could be further differentiated. But we did -- we recognized it as high risk. And so we thought it made sense to not include it from our guidance. We think our guidance is pretty impressive even without it, where we guided to growth from 2020 to 2025 of 11% to 14% of the top line and then growth over the decade of 10% plus.

And then obviously, gantenerumab, if it works, it could provide some upside to that. That was what we felt was made the most sense when we thought about that guidance number.

Chris Shibutani

No. And in the context for those numbers, as well, you've also said that you have capacity to do $20 billion in terms of allocation there in that and to be clear from the 2022 to 2026 time frame. And so you would deploy therefore $8 billion to $10 billion in excess of the sort of original framework here.

But in the event that you don't, how are you thinking as CFO and the team about distributing to shareholders perhaps in other forms of rewards, whether it'd be share repurchases, dividends which you do have?

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

Right. So within that $20 billion, there is -- we would expect to continue to distribute some cash to shareholders. We pay a dividend. We've raised our dividend by north of 10% this year. And we're committed to continuing to pay dividend over time.

We also said at the Investor Day that we would look potentially to incorporate share repurchases as another way to return capital to shareholders. But to be clear, our primary focus is buying new royalties. And that's where we're going to spend -- we would expect to spend the vast majority of our capital because we think that, that's how we can create the most long-term value.

But returning cash to shareholders is also an important component for a business that throws off as much cash as our business does; we think that's going to be -- continue to be an important element.

Chris Shibutani

Absolutely, ever relevant in this deal environment. One other product category that I think we can learn enhance the pixels of our understanding would be hypertrophic cardiomyopathy relationship that you have with Cytokinetics.

Obviously, with Bristol, we have the approval of Camzyos, mavacamten, there. Talk about the work that the team has done and the view that you have, the house view in terms of how this market will evolve, particularly in the OHCM side, but then also the next would be the non-obstructive in there, obviously, some enthusiasm. But maybe can you -- with some candor how you think this could play out?

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

Yes. So that was an investment that we made at the beginning of this year. We're excited about the OHCM market. Certainly, we are happy to see the approval of Camzyos recently. We think aficamten has the potential to show a little differentiation.

But we think that it's an important market where there hasn't really ever been a good option. Bristol is going to be out there building that market. And we think that there's a role -- there's a real role for two products where aficamten, like I said, has the potential to potentially be differentiated over time.

And then -- in terms of the non-obstructive, I think our base investment thesis is really on the OHCM market. But we'll see what happens in the non-obstructive. And over time, if Cytokinetics runs a Phase III trial there, we would fund an additional $50 million to help them fund that trial.

And then that could be a further driver of outer year revenue for that franchise.

Chris Shibutani

Terrific, that makes sense. And then as a closing question, it's been about a month since the Investor Day. I think it's been very educational for people to understand that over the -- since then, your interactions with the investment community, what do you think are the areas that still you think ugh, they still just don't get it. Where's the cognitive dissonance? Where's the journey, i.e., the investment opportunity?

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

So I think we've only been public for two years. And so it's -- we do see it as a bit of an education process where this is a new business model where public investors previously haven't had access to it, right?

And I think what we've tried to focus on is the sort of long-term compounding nature of the cash flows of this business and the differentiated, diversified portfolio. We have -- I wouldn't say we've gotten pushback. I just think it's just -- it's a continuous education process because this is new.

We have sort of-- we're starting to feel like we're getting some more momentum there in terms of the appreciation. So this is a unique way to invest in biopharma to play the innovation cycle in a lower risk way that there are going to be a lot of opportunities that will come our way, particularly in this environment.

And I think for us, it's just all about execution and continuing to deliver on what we've told investors we would, so far, so good as a public company. But we're committed to continuing to do that.

Chris Shibutani

It makes sense. Our team concurs. And we certainly feel like this is a great opportunity for investors to meet with you, with Marshall in person and certainly Dana and George have their work cut out. So no rest for you guys. So thank you so much for joining. We appreciate it.
