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PRESENTATION

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Great. Well, good morning, everybody. Thanks for joining us. I'm Terence Flynn, the U.S. pharma analyst at Morgan Stanley, and we're very pleased to be hosting Royalty Pharma today at our 20th Annual Global Healthcare Conference. Before we get started, I have to read some important disclosures. Please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative. Joining us today from the company, we have Pablo Legorreta, who is the Founder and CEO of Royalty; and Terry Coyne, who is Executive Vice President and CFO. Thank you both for joining me today.

I really appreciate it. And it's great to be back in person. Maybe Pablo to start, you could just share a little bit of background on the company. It is a more recent company for a number of investors given the IPO a couple of years ago. And it's definitely a differentiated business model versus some of the traditional biopharma companies. So maybe you could just give a little bit of perspective for people to frame it, and then we'll go through a number of other questions, but thanks so much.

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

Sure. Thank you for an invitation to be here. And you rightly pointed out that we're a young company, a young public company, but we've been at this now for more than 25 years, building what I view as a really attractive and very differentiated business in life sciences that offers very unique attributes to investors. And it's a business that I had the fortune to start in 1996 after about a 10-year career in investment banking in Europe and in the U.S. And what I saw back then about 25 years ago was the massive amount of research being done all around the world, funded by governments, NIH and other world governments. And the amount of innovation and patents IP that had accumulated at academic institutions and research hospitals. So it's a business where initially, we started to work with these original innovators, the universities and research hospitals to monetize their royalties, essentially giving them an upfront payment and then us collect the royalties over many years. And the business has gone through many evolutions.

And I think that's one of the things that has allowed us to stay at the forefront, way, way ahead of our competitors. I think today, having gone public, we're probably 5 to 10 years ahead of any potential competitor because that, again, allowed us to leapfrog them. But one of the really interesting things that looking back has happened with Royalty Pharma is that we have not stayed still. We have changed the model over and over again to address the needs of the market. So we started, as I said, with universities and research hospitals, build a portfolio, fixed our cost of capital in 2003 because we were initially funded only with equity, very expensive. And we figured out how to fund the business with debt, which brought our cost of capital down to about 3% at the time. And this is for half our capital. So half our capital has a cost of debt, investment grade, which is about 3%. The other half is equity. So you can just do the math, simple math. When we make investments and half of the capital that we're using cost us 3%, you can then figure out what happens to the other half, which is equity and how the returns are boosted when we put leverage on the investment. But we fixed that in 2003, and that opened up a huge market of us buying royalties from academic institutions and hospitals because I was having the problem of not having a low cost of capital to really be successful with those owners of royalties.

So that then propelled the business to become much bigger, more diversified, we deployed a lot more capital. And then in about 2012, we again innovated and decided that we had enough expertise internally to not only assess the commercial potential of our product because initially, we were investing for the most part in approved products. And what we were assessing was how big is the product going to be? The commercial risk for commercial potential. But in about 2012, we realized that we could also then take the binary risk of approval and unapproval, go earlier stage on products in late-stage clinical development and essentially fund the entire biotech industry, again, which broadened our market dramatically. And that change in the business model then opened up a whole universe of opportunities for Royalty Pharma. And we've been funding the biotechnic industry, and if you look back since 2012, so about 10 years, we've deployed now more than $20 billion of capital, where about 45% of that has been in unapproved products and about 55% in approved products. So it has really shifted our business to now us becoming sort of the one of the preferred or partner of choice of the industry, and it's not only small biotech, big pharma, and we've done recently a lot of things to really put us in a position where we can also start to fund the big companies, which we did five years ago, but we had to fix some accounting things. We can get into that later. So the business has evolved a lot.

I think now we're at a stage where we took it public with Morgan Stanley as one of our lead banks in 2020. That, again, gave us access to deeper pools of capital, lower cost of capital and has put us in a different universe. Now when we went public, we were talking about a target of capital deployment of sort of $1.5 billion per year, $7 billion over five years. And you recently heard that we upped that to more like $2 billion to $2.5 billion per year and more like $10 billion to $12 billion over the next five years. And that is the result of us really getting comfortable. We wanted to be very conservative as we went public. But now we've become very comfortable with what we see out there in the market. The needs for capital among biotechs. The need for capital among big pharma. We recently had our Investor Day, Analyst Day and some of you, if you go to our slides, which are on our website, you can see that when you look at this industry, life sciences, it's an industry that requires about $300 billion per year in R&D expenditure. About $100 billion that's invested by governments and foundations and about 200 by the corporate sector, which is biotech and big pharma. This is global capital expenditure.

When you look at many other industries around the planet, and you can look at cellphones or many others, the amount of money invested in real R&D, you're talking about tens of billions -- when you look at life sciences, one of the few in the planet where the investments in R&D per year is $300 billion, hundreds of billions, which is massive. Now we look at a 10-year spend. We did this exercise in preparation of our Investor Day. The academic side of the equation, universities, hospitals, foundations, we'll invest about $1 trillion over the next 10 years in R&D funded by government, funded by these specific foundations, Big Pharma will invest about $1.3 billion, $1.4 billion in R&D.

The unprofitable biotech sector. These are biotechs that are in late stages that need to fund the trials but also need to fund their own operations are going to -- We think we'll invest about $1.1 trillion. When you add all of this together, we're talking about $3.6 trillion of capital needs that the industry has. And we're obviously at our scale today a tiny, tiny fraction of that. But we think that over time, the demand of capital is so big that that's going to lead to this more like $10 billion to $12 billion of capital needs of the industry. So maybe I'll just mention one other thing that is very unique about Royalty Pharma. If you look at our business model, it offers investors something that doesn't exist anywhere else. We're really an N of one, which is we're able to capture the attractive aspects of life sciences, which is the patent protection, the revenue growth. And revenue growth that is in many cases, driven by new indications by many things that make this growth characteristics that we have very attractive, very high. But then we don't have the challenges that many of the companies have, which is the sales force, the manufacturing expense, all of those things.

So that results in a business that has 90-plus percent EBITDA margins and very predictable growth that we recently also guided to growth that is significantly higher in the 11% to 14% range over the next five years, which is probably 2x, even 3x as high as the fastest-growing large companies in life sciences, large biotech, large pharma. And that growth, which is very high, very predictable, comes with a portfolio that is very well diversified, so with a very low risk profile and very predictable. So I think that's very unique and something that I think should be appealing to many investors in life sciences, but I'll stop there.

QUESTIONS AND ANSWERS

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Great. Well, that was a great overview and obviously, you've made a tremendous amount of progress over the last 20 years. One question we get a lot, and you touched on this a little bit as the cost of capital, but competitive advantages versus kind of the peer set or emerging peer set. Maybe you could just elaborate a little bit more on that front in terms of cost of capital but also maybe other factors of the business that you believe position you well. I think you mentioned you think you have a 5- to 10-year lead over the competition. Maybe just elaborate on that a little bit more, Pablo.

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

I think one of the most important things that we have that I don't see in other of our competitors is the incredibly talented team that we built at Royalty Pharma that has taken a decade or more to build. It's probably one of the biggest teams in the industry focused on investing in life sciences with a very unique approach, very unique process. And it's a team that is able to really cover -- and there is a slide in our deck where we talk about all of the things that you need to get right to make successful investment in life sciences. It's about, I don't know, 8, 10 of them, I think. And we need to get all of them right. It's understanding the science, the commercial potential, the IP. You can go through that slide and you'll see how many. And I think our team is able to assess all of these different things in a very unique way and for the most part, getting them right most of the time. And when -- if one of those things doesn't work, we're going to lose money. And when I see a lot of the people that are trying to imitate us, they get one -- their team can only get right 1 or 2 things, not the 8 or 10.

So the team is really critical. And it's composed of about 20 people with medical background, science background, also commercial experience in life sciences. And many of them also having worked at banks as analysts covering the industry, but also people that then transition to become investors, which is very unique. Going from analyzing a product and trying to predict the commercial potential or the approval of the product is one thing, but really being able to get the feel for and developing the skills of being an investor is unique, and our people have it. So that's a big strength and it's a team that we're building. Now we're going to start to add people that are going to give us broader coverage into the industry, which we have today, but we need -- we think we need to expand that. And then there's other things and maybe, Terry, you should talk about our cost of capital and other of the really strong attributes we have that we think put us ahead of the competition.

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

Yes, certainly, cost of capital is a big one, where we can generate really attractive returns clearly when we use our low cost of debt, where if you invest in sort of high-single digits, low-double digits on an unlevered basis and then layer in around 1/3 of our deals are funded with very low-cost debt that can deliver returns that are in the teens or even better. So that's definitely a major competitive advantage. The scale, our ability to do the biggest deals. The -- we announced the deal earlier this year, $1.3 trillion -- sorry, $1.3 billion for Trelegy. Last year, we announced the MorphoSys deal. So these are really large multibillion-dollar deals.

I think that, that's a unique area where we are differentiated in our ability to do those deals. And then I think bigger picture, though, Pablo highlighted how big the capital needs are for the industry. So competition is -- I think, in our minds, competition is healthy. We think that because of the factors that we've highlighted, we can win the deals that we want to win. But it's a very, very big industry, very big opportunity. So there can be multiple players. And in our minds, the more companies or competitors that are out there talking about royalties is a good thing for us also.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

I'll follow up on that in a second in terms of the synthetic opportunity but one thing in terms of the cost of capital, again, obviously, with rates going up, and you guys have fielded this question on your earnings call. But does that change at all how you think about the mix of deals, so commercial versus pre-commercial? Pablo, you kind of mentioned that mix over the last 20 years. But as you think about in a rising rate environment, does that shift at all how you think about that mix of pre-commercial versus commercial deals, recognizing you probably get better returns on the pre-commercial side? Or do you still want to maintain that kind of 50-50 mix over time?

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

I think maintaining the 50-50 mix over time makes sense and we actually always think about this over a two-, three-year period because there will be years when we do a lot more of one or the other. But over time, I think that's a very healthy mix. And I think the thing that's so interesting about the pre-commercial deals, where our target is high teens when we look at the asset, is that when these assets work and they get approved, then we could add leverage to them. So the boosting of the returns will happen down the road, not immediately, but down the road. And what happens is that you take 15-year assets because they tend to be also longer. And we act -- It gets approved, now hopefully, what happened is that the returns that we targeted, which is in the teens will materialize unlevered, but then you add leverage to that asset and the returns go obviously well beyond that very significantly.

And one of the things that I think investors also do not appreciate that when you model it and you say, we have -- we put a leverage of whatever, 50% on an asset and a seven-year debt or whatever. But what happens with our business is that we're able to actually like lever a 15-year asset two or three times and what really happens is that we're maintaining a constant level of leverage that is commensurate with the value of the asset, but also it's a multiple of the revenue. By maintaining this constant leverage, what really happens is that the return on the asset is significantly higher than what you -- like if you just model a 15-year asset that you're going to leverage. Maintaining that constant leverage really amplifies the returns in a meaningful way. Yes.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Understood. The other kind of follow-up I had, and again, you touched on this, probably kind of needs of the biotech industry, $1 trillion over the next decade obviously opens up the synthetic Royalty market. You guys have been one of the innovators there. Maybe so you could just speak to kind of a couple of examples, recent examples and then how you think about the forward opportunity in terms of framing that from maybe a revenue perspective and maybe the pace of those deals.

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

So this is a big opportunity for us, really, really big and what has happened is that we spent a lot of time starting in 2010, 2012, really educating the broad biotech sector, management teams about this idea of funding your business with royalties. And it took time for us to get across and when we hired Chris Hite in 2020, and he came from Citi, one of the things that he mentioned to me is "Pablo you cannot imagine how things have shifted." Because maybe five years ago, he said to me, the discussion at boardrooms about using royalties to fund clinical development was nowhere. It was very rare. But now at every board room, now the Board and management discuss using royalties to fund their business. So it has really become mainstream. What that has resulted in is a demand for our partnering with us and us deploying capital. You saw the numbers. Last year, we looked at something like 300 deals, and we ended up doing -- When you look at the last two, three years, it's somewhere between six and a dozen deals per year.

Very selectively, we pick what we think are the best opportunities. One thing that I think is really interesting to just reflect on is the fact that we have access to really interesting information that rarely investors have. Because we're financing the product we're under confidentiality with the company. We get access to all of the patient-level data to minutes with FDA, which is really amazing that we have access to that information, and that's how we make the decision. So it really tilts the risk reward in our favor. That's why we have had a very high rate of success in deploying capital in late stage.

But I think the fact that we actually have succeeded in educating broadly the biotech industry about using royalties has resulted in us having like a couple of billion dollars of -- this is the way I see it, of base deal flow per year, where we can deploy $1.5 billion to $1 billion, maybe $2.5 billion, just doing this $300 million, $500 million, maybe $200 million deals with companies funding their late-stage products. And then there is this other possibility of us having a large deal from time to time that could essentially take the capital deployed to much significant much higher levels.

But an example is BioHaven. We went through the company, looked at what they had in late stages. We were very -- it was so interesting to see the science and the way management was thinking about that asset, even the commercial strategy we thought made sense. And we funded it initially through a hybrid where it was $150 million deal, $100 million for a royalty, $50 million of equity. And then that led to a three, four-year relationship with this company where we ended up deploying close to $800 million. Different instruments, royalties.

We did the launch capital, which is a very new thing that we're educating the market about where we can give a biotech company capital for 10 years and we really discuss with them how we're going to get a return on that capital through a payment, stream of payments that is totally customizable. That kind of capital does not exist in this industry. Someone that's willing to give you money where you're going to get the money back in 10 years or so is very unique, and it really fits well the biotech timeline. So with BioHaven we've deployed $800 million and what happened recently was that it was acquired by Pfizer, which we also thought was a great outcome for the company and for us.

It was great because if you look at that company, I think that asset in the hands of that company and that management team was in the early phase, was ideal. Why? Because this team was able to come up with a marketing strategy that was very focused, very well thought out in a market where they're competing assets. There were other migraine drugs that were being launched. But this company, which was small, nimble, was able to put in place a really well-thought-out commercial launch strategy that probably would have been more difficult at a bigger company with more constraints and competing launches.

So they did phenomenally well. But now that this asset -- and it's obviously launched really well ahead of our expectations, ahead of the expectations of many analysts. But now that it's moving to Pfizer's hands, I mean, you couldn't have hoped for a better market at this point with an amazing sales force global reach than Pfizer to really take this to the next level. And as you have seen now, I think the target sales for this drug is $5 billion to $4 billion, $6 billion something.

We had thought initially very conservatively of more than a couple of billion. We have seen -- We modeled scenarios where it could be double that under certain cases, but that was not the way we underwrote it. But that worked out really well. And this hybrid model worked really well because what happened is that we had equity in this investment that now that has been taken out by Pfizer, we're going to end up getting close to a 2x on our total investment, which obviously accelerates significantly our return and gives us back two times what we invested, that we're going to be able to redeploy in other investments, hopefully doing this kind of hybrid deals. But now we're left with a 15-year royalty with an incredible marketer and an asset that's going to produce very predictable, very attractive cash flow that's going to grow very nicely.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Great. What -- and I guess, as you think about the environment right now with the capital markets where they are, are you seeing a pickup in the inbounds from companies that are reaching out to you to say, "Hey, we saw the success you had with BioHaven we're interested in structuring something similar." So are you seeing a pickup in kind of the pace of those conversations over the last like six or nine months?

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

Absolutely. Yes. I mean the number of inbounds has certainly ticked up. For us, that's one metric. But we're super selective. So we haven't done a lot of deals so far. We want to make sure that we're investing in the right assets where we see really great long-term potential and positive risk reward for us and our investors. But I think over time, what we think is that we've seen this trend, Pablo mentioned that royalties are becoming more and more a part of the mainstream of how the industry funds itself. I think in this environment, this is accelerating a long-term trend where we think that royalties were going to be an important component. We showed a slide at our Investor Day that of some of the success stories, the companies that we've partnered with, like BioHaven or BioCryst or Cytokinetics where around 1/4 of the capital that they've raised has been through royalties. And I think that, that's a trend that we think could play out for a lot of the successful companies over time, and we're starting to see some momentum there.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

You talked about is, Pablo, raising your deployment targets from the $1.5 to $2 to $2.5. But I think you guys also put out kind of a stretch goal of $4 billion to $5 billion. So is it really that synthetic opportunity ramping that gets you there? Or is it a combination of factors that when you think about that $4 billion to $5 billion?

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

Go ahead, Terry.

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

Yes. I mean I don't think it's any one thing. I think what we've seen is that the market is deeper now than it was three or four years ago. So the ability to do those a bunch of transactions in the $300 to $600 million range is growing. And so that's driven by the synthetic opportunity, but also other companies selling royalties as well. We think that that's going to continue to grow. I think that there's other opportunities in M&A that we've highlighted where those are much less predictable. But every couple of years, those can give you the opportunity to invest in multiple billions of dollars.

And then there's the big assets like the cystic fibrosis assets. They don't come around all the time, but they will -- we know that they will -- those things will come around again. Every couple of years, we find a couple of those. So I think that that's how you can kind of envision getting to that level. But for us, it's going to -- we're not going to force the issue. We're not going to invest just for the sake of deploying capital. It needs to be in value-enhancing deals. We're going to be very patient and hopefully let it happen organically. We'll be out there talking about royalties, but I think that it's something that we're going to put...

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

There's another part of our strategy that actually comes back to this question of how we're trying to stay ahead of the competition and it's this creation of this strategy and analytics group that we did three years ago. We started to think about it even further back, where it's working together with our research and investments group and this group is really going very deep into a lot of data that exists in the industry about clinical trials and what trials are being run in every possible therapeutic class and at every company and claims data.

So what we think -- We already started to see that we are now deploying that in discussions with biotech management teams where we can add so much value to the way they're thinking about their business, think about how they're developing their products, their clinical programs, that I think what will happen is that, in some cases, we could go to companies and say, "You should really think more broadly because you've been thinking maybe with some capital constraints, limitations and have not thought about other trials that you could run, which would give your product potentially a broader market, and we would be willing to fund you."

So that could lead to more capital deployment. Instead of 200 or 300, maybe we're to 500 to 600 obviously over time and based on milestones, but also better terms. We could end up with better economics just because by us adding value to them, they want to do a deal with us and not with others. And also because we can make the argument, instead of getting a 4% royalty, maybe it's going to be 6, which is 50% more, by the way. But that 6% is nothing if they look at us as an alternative to a big pharma partner. If they're really think of big pharma partner, it could be half of the economics. So if we go from four to six, great for us, better returns, and anyway, you get the point, but that is something that I think will also drive more capital deployment, better economics and us becoming really the partner of choice of the industry, which is obviously an incredible position for us to be in.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Well, maybe in the last -- Marshall's not here but I'll ask you a Marshall question. If there's one asset that you think is underappreciated by investors that could move the needle from a numbers perspective? Any -- in the 30 seconds.

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

I think an asset that has huge potential in our portfolio is the Alzheimer investment we have in Gantenerumab, which could become first-in-class. And it's risky. And we've always presented it as a risky investment because it's a hard space and a lot of things have failed. If it works, it could be an incredibly large asset where we have very high economics.

I don't know if you want to mention something else in there.

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

That's a great example there. We have a lot of clinical catalysts over the next year or two. That's a big one, but we're also going to hopefully get otilimab, the GSK product, seltorexant, a J&J product. So we have a number of interesting things in the pipeline, but also the great thing about it, the business is the big diversification and predictable growth, which allows us to take those other bets.

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

But you're right in seltorexant because I think that is not even well appreciated even among the big pharmas, that J&J's has], and it could be a very attractive asset, and we have high economics on that one also.

Terence C. Flynn - *Morgan Stanley, Research Division - Equity Analyst*

Great. Well, thank you so much, Pablo. Terry. Appreciate the time.
