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PRESENTATION

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

Thank you, guys, for joining us. Royalty Pharma management with us really excited, but I'll turn it over to Pablo and Terry to maybe kick things off, and we'll jump right in.

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

Sure. Thank you Umer for the invitation to join you this morning. And I thought it made sense just for me to spend a few minutes talking about why we're so excited about our business, the current situation we're in, in this interesting market for us. And as you mentioned, with me is Terry Coyne, our Chief Financial Officer. So I'll just start by providing some perspective on Royalty Pharma. We are the leader in the biopharma royalty market. We own a portfolio of about 45 approved and development stage products. Looking at sort of the recent financial performance, we've delivered 18% of top line growth this year. And this is a bit higher than the 13% Adjusted Cash Receipts compound annual growth rate that we've achieved over the last 10 years. And as you know, we have this very unique business model that provides investors with exposure to the best attributes of the biopharma sector without the common challenges. And we think this is very, very unique. There's really no other company that gives investors these two really attractive attributes, being able to capture the best of biopharma, the growth, the patent protection, diversification without being exposed to the common challenges. And if I talk a little bit about what's so unique about Royalty Pharma, it's really our moat. We have a very large moat and this comes from our very unique business model, the large scale we have, which allows us to really matter when we're when we're actually working with big companies, we can bring significant capital at scale, our low cost of capital. And all of this provides durable competitive advantages for Royalty Pharma. Our portfolio, as I mentioned, is unique. It's -- it includes 13 therapies that are blockbusters with end market sales of \$1 billion or more. And many of these are best-in-class brands. We also have very long product life cycles that average -- and when you look at our portfolio, the weighted average duration is in excess of 13 years. When you look at our market position and the sort of market share we have in the royalty market, it's about 60% and has been maintained at that level for many years. And when we look at the larger deals of greater than EUR 500 million, we have a market share north of 85%. Now if I just talk a little bit about the future of Royalty Pharma, and the market opportunity that we're facing, if we look at the different entities, companies that -- and institutions that we work with and have been our partners over the last two decades or so. Talking about biotechs, you probably have heard that we estimate that the biotech companies will need more than \$1 trillion over the next ten years to fund and launch their products, the products that they're developing. If we look at big pharma, also these companies will spend in excess of \$1 trillion over the next ten years to fund their pipeline. And then we have, obviously, the academic sector that -- where we have been very active. So that gives you a sense of the really large market opportunity that we see in front of us. And what this results in is our ability to deploy consistently very significant amounts of capital to fund the industry. When we took Royalty Pharma public, we guided to about \$7 billion in capital deployment over five years or over a five year time frame. And as you probably remember from our May Investor Day, we actually increased our capital deployment guidance to EUR 10 billion to EUR 12 billion over the next five years, very significant increase from \$7 billion to \$10 billion to \$12 billion. And on a yearly basis, we had guided to \$1.5 billion, and we increased that to more capital deployment in the \$2 billion to \$3 billion range per year over the next five years. This year, if I just talk a little bit about what we've achieved this year, we've deployed already \$3.4 billion in transactions year-to-date. And this is up from about EUR 3 billion last year. This year, as you know, the \$3.4 billion includes about \$1.3 billion that we deployed in Trelegy, which is a very interesting therapy marketed by the best marketer in respiratory. And I think the other thing that I'd like to mention, and highlight something that we did recently this year that I think is very unique, is the collaboration we signed and announced recently with Merck to fund MK-8189 Phase 2b asset in schizophrenia. And as you know, we've actually committed to fund the

Phase 2b trial as well as the Phase 3 trial. And this really points to us revitalizing our engagement with big pharma and funding their R&D. Also interestingly, recently, we acquired an attractive royalty in Olpasiran in development by Amgen to reduce cardiovascular risk. Again, a super exciting product with huge potential and a great partner in Amgen. In Q3, we actually raised our financial guidance for this year, despite absorbing substantial FX and loss of exclusivity headwinds. And I think we have an incredibly robust pipeline, which is bigger than ever and very exciting of discussions we're having now with many participants in our market, both biotech and big pharma. So I think with that, Umer, I will just finish by saying that all of this results in really very, very strong prospects for compounding growth in the coming years. And with that, Umer, I'll just pass it on back to you for Q&A. Thank you.

QUESTIONS AND ANSWERS

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

Absolutely. Thank you, Pablo. And maybe this is for you and for Terry perhaps. Just to open things up, and I'm more curious on your thought process of how you guys go about this. In an environment of rising interest rates, does that change the type of royalty assets you guys get interested in or not -- for example, let's say I have a drug, it will be a big drug, but it's a 2% royalty. Like that magnitude of royalty percent, does that matter into things you look at? Or is it entirely NPV-based?

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

The percentage in our portfolio, you will see that the royalties range from 1% or 2% to as high as 10%. And obviously, a higher royalty is more interesting. But what really matters is how big is the product? Because historically, we had like a little bit over 2% royalty in Humira -- now Humira became, it was actually closer to three. And it became the biggest drug in the world. So even a royalty of that size mattered because the product was very, very large. But anyway, Terry, why don't you talk about interest rates and how they -- what our thinking is right now.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

I think it's obviously a very topical question. The interest rate environment doesn't really change what we look at. We highlighted this at our Investor Day, but we really are focused on quality of the asset and the scientific data, the strength of the market or the unmet need. And so the prevailing interest rate environment doesn't really have any impact on where we're spending our time or where we're trying to invest. It obviously has an impact though, it can have an impact on return expectations. And so as rates increase, I think that there is some natural sort of increase in return expectations on the margin as well.

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

Got it. Maybe then -- okay, so it sounds like the pace of activity is unchanged in regards to the interest rate environment. If anything, there's more opportunity. So that -- all that makes a lot of sense. I know...

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

There's a lot more opportunity within-- sorry for interrupting because obviously, what has gotten much more challenging is for many companies to finance their R&D. And the market was incredibly buoyant two, three, four years ago and now it's more difficult. So, it actually creates a very attractive environment for us. We obviously have to remain incredibly selective to try to pick the most attractive investments. But anyway, sorry for the interruption.

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

No, that makes sense. I mean I think as a stand-alone company now, one of the questions that will always come up is the 2025 guidance you have out there. So maybe for both of you, can you remind us -- remind us the guidance as well as the -- how much of that is organic versus not? And how much CF is part of that?

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

Terry, go ahead.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

So what we said at our Investor Day is that we were going to grow from 2020. This was our Investor Day in May, we were going to grow from 2020 through 2025 at 11% to 14% CAGR and we broke that out into a couple of different buckets. -- we said that -- and CF would be in the first bucket would be sort of our mature -- more mature portfolio, mature growth, but still growing portfolio where we said that that would grow I believe we said around 3%, so sort of low single digits. And then when you layered in some of the more recently launching products that took us to around 7%. And then when you layered in some of the pipeline products that the contribution there was small. So it sort of took us to 8-ish percent, give or take a little bit.

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

But this did not include new BD impact. Would you agree with that, Terry?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Right. So then the increment above that to get to the 11% to 14% was really from new investments. And so CF was in that first bucket. And we looked at a range of scenarios, as you can imagine. We look at consensus, but we also look at other scenarios to make sure that we're comfortable.

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

Got it. So it's 11% with organically and 14% with BD? Am I interpreting that right?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Sorry, no, sorry if that wasn't clear. It was 8% organically from what things we already owned. And then when you add in BD, it gets us to that 11% to 14%.

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

8% organic and 11% to 14% with BD, got it. That makes a lot more sense.

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

One thing to comment on about this 8%, Umer, is that one of the things that's very unique about Royalty Pharma is that, that kind of growth, which is high compared to the larger companies in life sciences, 8%. It's also highly predictable because it's coming from a very well diversified portfolio

of royalties. So we're not as reliant as other companies in a handful of products for the top line and for the bottom line. And this has been consistent throughout our history, more than two decades that the growth has been very predictable.

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

Got it. Now consensus is -- so I know and I've spoken to you guys in the past about this as well. It's your opinion that you expect CF to be very durable for multiple reasons, not just based on what the incremental offering is from Vertex, but also because you believe you have legal grounds to assume that you do have royalties on even a next gen molecule as well. And I think consensus generally mirrors that from a guidance perspective. But my question is, how are you thinking about the guidance and the possibility of \$3 billion plus in sales in a scenario where Vertex attempts a very aggressive switch in '25 time frame?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. So we didn't -- we're not -- we haven't given specific product-level guidance, but we looked at a range of scenarios, including, obviously, CF is a very important franchise for us, and we looked at a range of scenarios for CF. I think at a high level, though, we're just sort of taking a step back, we continue to believe that Trikafta sets a really high bar. It's been transformational for that disease. We haven't seen anything so far based on the Phase 2 data. We haven't seen detailed data, but based on the sort of press release that everyone else has seen, we haven't seen anything that suggests that the new triple combination is any better at this point. So I think we feel really good about the long-term potential of Trikafta. But we also, obviously, we understood that investors wanted to understand what the risk was under downside scenarios. And what we said is that we sort of see it as sort of a couple of hundred million dollar headwind to our business towards the back half of this decade. So -- that's how we've described it. But we obviously look at a lot of different scenarios to get comfortable with our guidance.

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

Got it. So is the peak CF contribution to you is up to \$1 billion. When you say a couple of hundred million, it basically assumes that your base case is 20% or so type of switch to a next-gen. Is that reasonable?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

I wouldn't assume that. I mean, you have to remember there's -- this is on Adjusted Cash Receipts. There are some nuances, part our main -- our biggest investment in that CF franchise has a noncontrolling interest as well. And also remember that we -- there's no question that for that new Vertex triple, we will be paid the full royalty -- our full royalty rate on the Tezacaftor component. So that's -- there is a base royalty in that new triple. What we've described as around, as 4% and so that is a factor that you have to consider as well.

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

In a way, we see that \$200 million delta maybe as the downside case.

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

Got it. Okay. Makes sense. Mike, anything you want to touch up on this before we move on?

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

No. So I was just going to say, just based on the big deals you've done so far like Morphosis, like Trelegy, I mean, is it fair to say that those big deals alone may have kind of solved the gap that would result from a worst-case scenario from CF?

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

You're so right, Mike. And the reality is that between now -- over the next three years, over the next five years, we will probably have half a dozen of those large deals, right? Like almost every year, we're able to add a very large investment in a very attractive large product. And that's another thing that's very unique about Royalty Pharma. When you look at our business model versus many other companies that because of the openness of the business model Umer, we have no therapeutic constraint or limitation, right, whereas even the big companies are focused on three, four, five therapeutic areas. And it's very hard for them to actually get into another therapeutic area because it might take them ten years. They could do it through an acquisition, but it's also hard, very competitive. In our case, given the uniqueness of our model. Historically, if you look at it every year, we've added three, four blockbusters per year to our portfolio consistently, and that's very unique. Now some of those blockbusters, maybe the royalty is not as big. So maybe the contribution is sort of medium. But in some cases, the royalty will be big and the blockbuster will be attractive large growth product growth for many, many years. And then the revenue contribution will be very meaningful. So that's one thing that I think investors, I think, have not really fully either understood or appreciated how our model allows us to really add the best drugs marketed by the best companies consistently every year and many of them.

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

Got it. Can I just clarify something -- Terry, you just said and I had to literally go back to my notes to make sure I wasn't mishearing that. So Terry, you were very specific that you were -- you know what let me pull this up because I feel like this could feed some confusion sometimes. I'm going to pull up this image of the royalty rates because people confuse them all just like I just did. So you said Tezacafator, you definitely get the royalties, no matter what happens. -- correct in the Vertex Triple. I feel like one of the discussions we had had in the past was around this component on the Ivacaftor deuterated side. Is it still also your opinion, you also keep that? Because I feel like that was one of the main punchlines you guys were running with.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

So that is the area where we feel strongly but I think that that is an area where it sounds like Vertex feels differently.

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

You guys continue to feel strongly. You didn't say that and I was curious.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Sorry if I didn't say that. Yes, we believe deuterated Kalydeco is simply Kalydeco and it should have the same royalty rate as Kalydeco.

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

When we made the investment, we were extremely careful on our legal diligence and IP diligence. And when we bought the royalty in 2014 for \$3.3 billion. But then you may recall that in 2020, was it 2020 Terry or 2019?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

It was 2020.

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

It was during COVID.

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

We added -- it was during COVID absolutely. We added a residual \$600 million investment in this franchise where we bought out some residual interest that the cystic fibrosis foundation had. And again, we updated our diligence, very really careful IP diligence on all of this. And we got very comfortable and that's why we ended up deploying another \$600 million. So we'll see. I mean we feel highly, highly confident on our legal position here.

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

Got it. Do you guys envision this heading towards some sort of an arbitration or legal?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

It's a little early to say about any of that at this point.

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

Yeah, so you wait to get your check when this launches and then if the check doesn't come with the math that you have in mind, presumably that's when you look into options?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

We just haven't elaborated on any of our plans there.

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

Okay. Excellent. On IRA, which of your products do you expect to enter the basket, I'm curious.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

So I guess the three obvious candidates are Imbruvica, which unfortunately has faced some commercial headwinds, but Imbruvica, Xtandi and Trelegy. Those are probably the big ones right now that we're paying attention to. And each of those has sort of different dynamics. Obviously, Trelegy is a product that is at a much lower price point already heavily discounted. So I think that there's a lot of moving pieces there, but those are the ones that were better that we would be probably focused on.

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

Got it. Okay. Makes sense. On the -- some of the other macro stuff on the accounting side, the -- there's been a few deals like the Trelegy deal recently, which was more late stage. I'm curious, any back and forth with SEC or anything like that on the way you guys are going about it?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

No. No, we haven't had any comments from the SEC on our accounting. As you know, there was a change that happened across the industry. And I guess, it was the first quarter -- it was at the end of the first quarter, where the sort of IP R&D previously, many companies were backing out IP R&D from their non-GAAP financials. We proactively -- we were not actually in those meetings with the SEC. But we proactively made that change as well. So when we previously -- if it was an asset that was expensed or an investment that was expensed as R&D expense under GAAP. Previously, we had backed those out. And now we're including those in our non-GAAP metrics as well to conform with the industry.

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

Got it. And just before we wrap up, and I think this is very important. So one of the assets you mentioned was 8189, where you're risk-sharing with Merck, and there might be pretty substantial and interesting economics. What would you flag as your top three clinical-stage pipeline programs that we should look out for?

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

That definitely is one. Olpasiran is another one that we're very, very excited about. And then there's others like Seltorexant, which is an asset that has not been on the radar of many investors, being developed by J&J. But Terry, what else would you add to that?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

No, I think those are good ones.

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

What are the royalties on each of those? Would you know off top Terry?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. I was going to say Aficamten. I don't remember exactly what we disclosed on that we didn't -- we weren't specific on 8189. Olpasiran was single digits to double digits or something like that. I can't -- sorry, I don't know it off the top of my head.

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

It's actually high single to double or mid- to high single to double.

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

And without getting into specifics on 8189 -- like for modeling purposes, is that a reasonable?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

We just haven't said right now.

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

But you're risk-sharing, so it has to be higher than usual.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. I mean it's consistent with the returns that we would expect for an asset with that -- with the level of risk that that has. So obviously, it's in Phase 2b. A lot of cards need to turn over, it's higher risk. So we -- for that investment, we're targeting returns that reflect the risk that we're taking.

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

Got it. Mike, you wanted to say something?

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

No, I just think in interest of time we need to end the call, unfortunately.

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

Yes. Sounds good. What a Debbie Downer Mike. Alright, sounds good guys. Thank you guys for making time. Great seeing you.

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

All right. Thank you.

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

Thank you very much.

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