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PRESENTATION

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Welcome to the afternoon sessions of the BofA Healthcare Conference. I'm Geoff Meacham. I'm the senior biopharma analyst. We're here today on stage, and we're thrilled to have Royalty Pharma, Terry Coyne, CFO; Marshall Urist, Head of R&I -- sorry, I'd say R&D. R&I.

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

R&I, yes. Yes.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

So Terry is just going to go through a couple of slides to set up the background of the company, and then we'll do some questions.

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

Great. Thanks, Geoff, and thanks for BofA for having us here. So these are our normal forward-looking statements.

Royalty Pharma is a fairly new public company. We went public in June of 2020, but we actually have been around for a long time as a private company. The company was founded in 1996. We have 85 employees. Our portfolio has over 45 approved and development-stage products, 15 of these products are blockbuster products. We really try to prioritize investing in blockbuster products because they tend to be the products that get the biggest -- the most resources from pharma, and they oftentimes tend to be the products that end up outperforming.

When you look at our portfolio on the right side, you can see that we're diversified across products and therapeutic areas and also marketers. Rare disease is our largest therapeutic area of 33%, cancer second at 22%. And then going down the line, neurology, immunology, hematology and cardiometabolic. Some of those areas, I think, are areas that we think will grow, particularly immunology, where we have a royalty in Tremfya that we acquired in 2021. We're very excited about the prospects of that product. It's marketed by J&J for psoriasis and psoriatic arthritis with some label expansion opportunities as well.

And then respiratory, we have a royalty in -- that we acquired last year, actually a $1.3 billion transaction in GlaxoSmithKline's Trelegy, which is a very important product for that company, and we think will be a good growth driver for our business.

From a financial perspective, last year, we had $2.8 billion of top line, Adjusted Cash Receipts; $2.6 billion of Adjusted EBITDA, so a 92% EBITDA margin, which really speaks to the efficiency of the business model; and then $2.2 billion of bottom line. So it's a very, very efficient business, where we really are taking that cash that the business generates every year and reinvesting it in new value-enhancing royalties.

When we think about the market opportunity, it's very large. Starting from the top, if you look at how much biopharma -- sorry, how much academics and not-for-profits are going to invest over the next decade, it's over $1 trillion. And this is going to create the next crop of new products for the biopharma industry and also a lot of new royalty opportunities for our business.

If you move to the right, small and mid-cap biotech companies, so these are the unprofitable biotech companies, are going to have over $1 trillion of operating expenses over the next decade. This is a big opportunity for us to help fund that innovation for the most exciting products in the industry. And then pharma is going to have another $2 trillion. So all of this is creating a lot of royalties for us and a lot of very, very big market opportunity. If you look to the right, you can see that the global pharma market is expected to have over $2 trillion of sales in 10 years from now.

In our market, specifically, we've seen a lot of great growth. So the number of transactions has increased sixfold since 2015, and the dollar value of transactions has increased tenfold. And over that period, Royalty Pharma has maintained a 50% share of the overall transaction -- dollar value of transactions, and we have around a 25% share of transactions by volume. When we think about our business specifically, we've had a lot of momentum over the last few years. One of the things that we focus on is our funnel. And so we look at -- on the left side, you can see the number of initial reviews, so that's really the top of the funnel, has increased by 75% since 2019. So 200 initial reviews in 2019 grew to 350 initial reviews in 2022.

Even more important is the in-depth review. So these are the opportunities that pass that initial screen phase where we decide we're going to really allocate resources and do more work, and that's also up 75%. And then that has translated to increased transaction value. So transactions, the dollar value of transactions that we've done, announced transactions, is up almost 60% over that period.

This is -- this slide tells you a little bit about where we see -- what we see as the future for biopharma companies. We think that royalties are going to become and have become a fundamental part of the way that the industry funds itself. And you can see that there are a number of success stories so far, starting from the top left, Immunomedics, that's a company where we gave them 13% of the capital that they raised over time. Biohaven, on the top right, they raised $3.2 billion, and we provided 26% of the capital.

And so overall, royalties for these four companies, Immunomedics, Biohaven, Cytokinetics and BioCryst, have represented around 25% of the total capital that they've raised over their lives. And this is the big idea for Royalty Pharma is that, over time, we think that every successful company, every successful biopharma company should have royalties as a part of their overall capital structure.

In terms of Royalty Pharma's capital allocation over the next five years, at our Investor Day last year, we highlighted that over five years we expect to generate around $20 billion -- we expect to have capacity to invest around $20 billion. And when we sort of break that down into different buckets, $10 billion to $12 billion is our target for capital deployment in new royalties. That's going to be our primary use of capital. Dividends, we pay a 2% dividend currently, and we're committed to continuing to pay the dividend. And then most recently, we've added share repurchases as another tool to return capital to shareholders. We announced that we -- that our Board, at the end of March, authorized a share repurchase program of up to $1 billion through 2027.

And then the last thing to point out is that we also have additional capacity through leverage. We're committed to maintaining our investment-grade credit rating. But we do have additional capacity to, if the right opportunities come along, to find new royalties and that number ends up being much larger than the $10 billion to $12 billion target we've laid out, then we do feel like we have plenty of capacity to take advantage of those opportunities if they come along.

We've had a very balanced approach to new investments over the past 10 years or so. And it's been a pretty healthy mix of both approved products and development-stage products. And so if you look at the breakdown, we've invested $21 billion in cumulative capital deployed, $12.5 billion has been in approved and $8.6 billion has been in development stage. That comes to around 59%, 60% of our total capital deployed has been in approved products. And going forward, we would expect to maintain a pretty healthy mix of both approved and development-stage products.

The last thing -- the last slide here is just overall that we view Royalty Pharma as a very unique way to -- for investors to access biopharma. So from a growth perspective, and when we compare ourselves to pharma, we think we have a lot of attractive attributes. From a growth perspective, we highlighted at our Investor Day that over this decade, we expect to grow our top line at 10% or more. That compares to pharma in sort of the mid-single-digit range. In terms of scale, a number of blockbuster products, we have 15 blockbusters in our portfolio, which compares nicely to pharma. Our cost of capital actually is very similar to pharma, in the mid-single digits. The stage of development where we're actually deploying capital is much different, though. We're investing generally in post proof-of-concept or approved products versus pharma, which is going to be investing in preclinical all the way up to approved and label expansion. From a dividend yield, it's -- our yield is around 2%. And sorry, I missed this. In terms of returns on investments, I think we feel we have a very strong track record of delivering consistent low-teens IRRs. And I think that the pharma track record is certainly up for debate. And then the last thing to highlight here is insider ownership. So when we look at the ownership of our NEOs, named executive officers, they own 16% of Royalty Pharma, and that compares to less than 1% for the average large biopharma company. So we are very aligned with investors, and we're very excited about the long-term potential of this business.

With that, why don't I open it up for the Q&A.

QUESTIONS AND ANSWERS

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

All right. Yes. Thanks, Terry. So for both of you guys, if you look at the higher impact kind of markets today where we've seen the biggest disruption and sort of captured investor attention it's markets such as obesity and Alzheimer's. I mean you guys had the economics with gantenerumab, but does the allocation of capital towards these very large markets, which is mostly well-funded, big cap biopharma, what does that do to your kind of set of opportunities? I know you talked about synthetic royalties being a big -- and we haven't seen a lot of those deals, but I'm just trying to think of if you sort of evolve to bigger dollar, higher markets, does that change the -- how you guys allocate capital?

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes, I can start on that. Thanks, Geoff. That's a good question. So we've talked about overall our strategy for how we approach the portfolio, building a portfolio isn't really a bottoms-up, saying we need to go find something in obesity, or we need to go find something in Alzheimer's, to use your two examples. It's really about what are the really exciting things that we're seeing over time and really be opportunistic to have the team and the platform to be able to really be flexible and tactically go into those areas. And so that's how we run -- have always run the business, and I think we're really excited to continue to do that.

Certainly, those are two really attractive markets and definitely on our radar in terms of looking for opportunities, but it also has to be right, right? So we're not going to sort of say, I need an obesity investment to check that box, it's is that something that where we really think we have the opportunity to participate in, a differentiated product or something that can really be meaningful.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Right. And if you look at, say, the oncology space, for many years, we've gotten from a larger market, say, just overall breast cancer to biomarker-specific, more narrow indications that are targeted, that enhances the probability of success, right? So it lowers the risk profile. You're starting to see some of that spill over into other large therapeutic areas like inflammation, immunology, et cetera. So does that change kind of the way you guys are thinking about it when you -- in your review process, do you look at drugs that could serve the largest audience of opportunities? Or is it -- would you favor ones that have a lower risk profile, higher probability of release being approved?

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes, you probably won't be surprised to hear it's not one or the other, right, in the terms of the way we look at it. I think one of the investment themes we highlighted at our Analyst Day last year was the rise of targeted therapies in new areas that aren't oncology, and that's definitely something that has been on our radar thematically. We made an investment with -- one example of that, which was Cytokinetics, with aficamten for hypertrophic cardiomyopathy as a targeted therapy for brand-new market where we haven't seen it before.

The other good thing, sometimes with the targeted therapies, is it can be a little bit of a competitive moat, too, where maybe those spaces aren't as crowded sometimes, which, as everyone's talked about, in oncology is definitely something we're seeing in a lot of different spaces. So it's not one or the other. I think we're, again, looking at things where we can have high conviction in the clinical development and the commercial opportunity or the commercial opportunity depending on where that product is.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Got you. And Terry, you mentioned looking at the balance between developmental-stage investments and marketed products. Obviously, the capital markets have been pretty much up for -- I mean this summer, it will be going on two years. Does that change how you guys -- would the strategy here to invest in companies on their way up? Or is there any edit to kind of your process?

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

We don't feel like the process has changed. I mean certainly, maybe the top of the funnel looks a little bit different because obviously, the challenging capital markets are creating capital needs for many companies. But for us, the bar hasn't changed. And so we're still looking for products that are having the biggest impact on patients because those are the products that we think are going to sell, that are going to stand up against competition and that are going to get reimbursed and ultimately be important royalties for us. So overall, the philosophy hasn't changed. We certainly are seeing a lot. And we need to continue to maintain that really high bar.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Right. That makes sense. You guys are typically asked this, but I feel like I should at least throw it out there. So just given the macro environment, can you speak a little bit to kind of the cost of debt, just given the evolution that we've seen in rising rates?

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

Yes. So we're in a fortunate position right now where after we went public in 2020, we refinanced all of our debt. It was floating rate, and we have now fixed rate, fixed long-duration debt. So we have very little sort of near-term exposure. 60% of our debt matures in 2030 and beyond, and we're borrowing right now at 2.25%. Now, we do have maturity later this year, and I think we're still trying to assess what we're going to do there. We have $2 billion of cash, it's $1 billion maturity. So we have flexibility, and I think it will be a little bit pipeline-dependent.

That being said, overall, when we think about cost of capital, certainly, the cost of capital for Royalty Pharma has increased. And I think that's reflected overall in the sort of risk-adjusted returns that we're targeting. And since we are in the business of recycling capital year in and year out, there is sort of a natural hedge in our business in that as cost of capital rises, the spread on what we're targeting doesn't really change and might even increase as well. So that is a very nice element to our business versus maybe another -- a more traditional pharma model where the sort of R&D costs aren't changing, but the return might change a little bit.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Okay. Makes sense. Let's talk a little bit about the recently announced share buyback program. So that's a new capital strategy for you guys. You guys haven't historically done that. And I guess give us the thought process of what went into that, and maybe if that's, going forward, something that we can count on, on a regular basis.

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

Yes. So thanks, just so everyone knows, we announced a share -- our Board announced a $1 billion share repurchase authorization at the end of March. And it's something that we've been thinking about for a long time. So at our Investor Day, last May, we highlighted that over time, we highlighted that our number one use of capital is royalties. That hasn't changed. The opportunities are really big there, and that's where we're going to focus our time. We have a dividend, we're committed to continuing to pay the dividend. And we said that we would look to add share repurchases as another tool over time.

And so at our -- sorry, at our AGM last June as a U.K. plc, we actually need shareholder authorization for a share repurchase, and so we got that. And I think that we thought, as we looked at how the business has evolved, our cash position, the cash generation of the business, we thought that now made sense as a really -- as a tool to add to the toolkit. We also -- it's undeniable that we see a lot of value in our stock, and when we're assessing that and weighing it against royalty opportunities, like I said, royalty opportunities are always going to be the primary focus, but we think it's a nice complement in a way to return capital to shareholders and hopefully create additional shareholder value.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Let me ask you on the rare disease portfolio. It's the largest sleeve that you guys have on your portfolio. Just talk about -- maybe about the strategy there. Is there -- doesn't seem there has been an intention to do that, but you do have kind of niche to your markets that could eventually grow to become huge therapeutic categories like CF, for example, right? So does -- where does that sort of rank in kind of your -- in the funnel and the selection process? Is orphan kind of preferred? Or is it just more about the science and what could ultimately yield the best economics?

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes. I wouldn't say it's preferred, but certainly, it's an area where when you think about a lot of the other risks in our business on the commercial side, it's an area where those can be more manageable as long as it's a product that has a really meaningful benefit to patients. And I think that's been our real focus in orphan diseases, if there is a product that really is meaningful to patients that those have done and they're, and I think this is an important point, are in the hands of a marketer that can maximize the value globally, right, because that's a really important part of the story that that's -- those are things we like. You've seen us make two investments in SMA, as a good example, between Evrysdi as well as Spinraza earlier this year. Those are two really great products, big unmet need and in the hands of marketers, who can really, really drive those products globally, where the ex-U.S. opportunity is in excess of the U.S. market. So those can be really, really great opportunities that way.

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

We really pride ourselves on being therapeutic area agnostic and just being opportunistic and trying to have an open mind when we look at assets and investing in what we view as the most exciting assets. Whether it be in migraine or oncology or rare disease, we really try to be pretty -- keep an open mind when we're thinking about it.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

That makes sense. How has the kind of the risk level in the developmental stage -- among the developmental-stage deals, has that evolved over time as you guys have seen sort of high risk, high-reward indications kind of, I mean, go awry? I mean, are you guys looking at the menu of everything in SMID biotech, probably too early stage for you, but is there a greater tolerance for risk now that you've proven the model and been able to churn capital pretty effectively?

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes. Two important things to think about there. I think one is no, overall, I think, our approach on-- approach to development-stage products has sort of stayed the same, which is doing the really deep work that our team is able to do, can we generate the requisite conviction that this is going to work and be a meaningful product. I would say, as to part of your question, it would be silly of us though not to think about what are the advantages of the scale and looking across our whole portfolio, right, and sort of saying there is room and should be a role in our portfolio for higher-risk, high-reward opportunities. Some of those are not going to work out. But relative to the scale of our business, having opportunity for really asymmetric upside is an important part of the strategy. It's never going to be a -- it's never really going to be any part of the portfolio as a major, major part of it in terms of size, but certainly, the benefits of being as big and diversified as we are, allow us to have exposure to that.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Yes. And with the -- some of the M&A that we've seen, and you guys have benefited from that being equity holders on some of the target companies, is that approach looking to the SMID biotech space? Is that something that looks more interesting now? Maybe it takes a little bit longer to de-risk an asset from a SMID-cap biotech but your returns may be on the takeout contribution of it.

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

Yes. No, we've had two nice success stories with Immunomedics, where we invested $250 million, $50 million in -- $75 million in equity and $175 million in royalty, mid-single-digit royalty. And that company was acquired, and our equity, we received, I think, $385 million on our equity. So it's a really nice return when we got all of our capital back plus a return, and now we have a royalty that's going to go well into the 2030s, that's on what we think is a very attractive product.

Same thing happened with Biohaven. In the case of Biohaven, we invested -- we did four separate transactions with them. And we invested around $800 million total. And to date, we've already returned around $1.5 billion. Our first deal with them was in 2018. And so we've already returned $1.5 billion, and we're going to have a nice royalty on that franchise, which is now in the hands of Pfizer, which we think is great for the commercial prospects there. And that royalty is going to go again, like into the mid, late 2030s. So it's definitely an area of a really nice opportunity for us. And I think that, especially in the case of Biohaven, one of the things that we want to make sure that the small and mid-cap biotech companies understand is we're going to be there to grow with you over time. We did -- our first transaction with them was $150 million, and we did four transactions and in a bunch of different flavors. And it's part of the beauty of our business model is that we can be really flexible. And we can grow with a company, and I think that, that really accrued to the benefit of Biohaven and also Royalty Pharma.

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

The only thing I'd add to that is, to the flexibility comment, we don't come and say sort of this is the recipe for a given deal that it has to have equity or not. It's really a conversation with the partner. Sometimes it can be how do we make the deal a little bit bigger without making the royalty be too high or sometimes companies ask us for it because it's a sort of -- it's aligning in some ways above and beyond the royalty.

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

It can be a validation as well.

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes, exactly. So it's part of the conversation, but not going to be in every deal.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

One of the things you guys mentioned at your Analyst Day last year was just the focus going forward of carved-out royalties, synthetic royalties on existing products. We haven't seen a lot of those. And so is it that companies don't want to offer that up? Or is it the stage of the company? Or is it you would find better opportunities somewhere else?

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Yes. I think there have been lots of opportunities. You follow our space closely, right, there have been more of them over time. We're also -- we've been at this a long time, and so we very much take a patient long view of this and are going to wait for and really lean into the -- exactly the right opportunities and not necessarily chase things that we're not excited about. So I think it's all of those things together. I think we still firmly believe that the slide Terry showed that raising capital via royalties is going to be an important part of the recipe for companies over time. It's very much becoming that way already. And so we think that piece is in place, and we're going to pick our spots and be deliberate going forward.

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

Yes. I mean we really are really selective. We try to be patient, and we want to make the right investments. And so we've always highlighted that the capital deployment pace can be uneven when you look at it in a single quarter, single year. But over time, it ends up being very consistent. And we think there's a lot -- there's a line of sight to it growing significantly from where we've been. And we're optimally positioned to take advantage of that when the opportunity comes from a balance sheet perspective, from an access to capital perspective. So we feel really like the company is in a really great place.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Right. And when you look at the -- within the portfolio, the technology is represented by some of the royalties. I'm just thinking about, say, mRNA technology went from nowhere to, I mean, almost $100 billion, right, and I mean from COVID. Do you look at technologies that way? Do you say, okay, we need to have a horse in this race, be it gene or cell therapy or viral delivery? There's just a whole range of like type of approaches.

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

We certainly are aware of them and are following them. We don't think about it that way. We see the world in -- we're product people, right, so it's what technologies can produce products. We -- and so sometimes that can mean there's a little bit slower tail on when we get involved in things. But we have kind of participated in every cycle of technology, from small molecules to biologics, doing siRNA and antisense in the last couple of years. And we will certainly continue to add, I fully expect, from all new modalities to the portfolio over time.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Yes. That makes sense. And last question. Are there any -- I know there's been some talk on the CF royalty with that data evolving, I think, over the course of this year or next. Any change to the update or strategy there?

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

No, no, we're still really happy with how the CF, our cystic fibrosis investment is performing. It's our largest franchise and was the largest investment we ever made in 2014. And we expect that this cystic fibrosis investment will be a very important contributor to Royalty Pharma over the long term, and we're sort of as optimistic as ever.

Geoffrey Meacham - *BofA Securities, Research Division - Research Analyst*

Yes. Okay. Guys, thank you.

Marshall Urist - *Royalty Pharma plc - Executive VP and Head of Research & Investments*

Thanks, Geoff.

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

Thanks.
