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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma first quarter earnings conference call. I would now like to turn the call over to George Grofik, Senior Vice President, Head of Investor Relations and Communications. Please go ahead, sir.

George Grofik *- Royalty Pharma plc - Senior VP and Head of IR & Communications*

Good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's First Quarter 2022 Results. You can find the press release with our earnings results and slides of this call on the Investors page of our website at royaltypharma.com.

Moving to Slide 3. I would like to remind you that information presented in this call contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from these statements. I refer you to our 10-K on file with the SEC for a description of these risks. All forward-looking statements are based on information currently available to Royalty Pharma, and we assume no obligation to update any such forward-looking statements.

Non-GAAP financial measures will be used to help you understand our financial performance, and the non-GAAP -- the GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website.

With that, please advance to Slide 4. Terry Coyne, EVP, Chief Financial Officer, will cover key highlights and review the financials. Pablo's son is undergoing a medical procedure, so he will not be able to join today's call. We wish his family well, and he's looking forward to seeing everyone at our Investor Day on May 17. After Terry's prepared remarks, we will hold a Q&A session. Marshall Urist, our Head of Research and Investments; and Chris Hite, our Vice Chairman, will also join the Q&A session.

And with that, I'd like to turn the call over to Terry.

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

Thank you, George, and welcome to everyone on the call. I'm delighted to report a strong start to the year as we execute on our strategy as a leading funder of innovation in life sciences.

On Slide 5, I will start by summarizing our accomplishments in the first quarter, which continued to reflect the excellent momentum in our business. First, we delivered strong top line growth of 15%, continuing our impressive track record of double-digit growth. Second, we maintained a robust and active deal pipeline, which reflects the strong growth in demand for innovative royalty-based funding solutions. We continue to be very excited by our opportunity set, which you will hear more about at our Investor Day on May 17.

When we look at our portfolio, we also saw very encouraging progress. Kaftrio received European approval for 6- to 11-year-olds with cystic fibrosis, while Vydura gained a first-ever European approval for both the treatment and prevention of migraine. Each of these approvals brings these transformative therapies to many new patients who could benefit.

Lastly, we are reaffirming our full-year guidance for Adjusted Cash Receipts based on the strong underlying performance of our existing portfolio. This is even more impressive in the context of a roughly 2% unfavorable impact from FX we are facing this year, which I will talk to you more about in a minute. I would also remind you, our guidance excludes the impact of any investment that we may make over the remainder of 2022.

On Slide 6, you can see our financials in a little more detail. In the first quarter, we delivered 15% growth in Adjusted Cash Receipts, our top line. This impressive double-digit momentum puts us in a great position to deliver another year of strong top-line performance in 2022. Below our top line, I am also pleased to report that we grew our adjusted EBITDA by 15%. This is an important non-GAAP measure for us, which is arrived at by deducting operating and professional expenses from our top line.

Our Adjusted Cash Flow, or our bottom line was impacted by an update to our non-GAAP treatment of certain development-stage payments, which amounted to $100 million in the quarter. This update conforms with changes being made across the biopharma industry beginning in the first quarter of 2022. As a consequence, our Adjusted Cash [Flow] (corrected by company after the call) declined 10% in the quarter. I will take you through the details of the update to our non-GAAP financial results presentation a little later.

Slide 7 shows our track record of strong top-line growth since our IPO in June 2020. This track record is a testament to the underlying power of our business model. By consistently innovating funding solutions and replenishing our royalty portfolio, we can drive compounding growth and absorb losses of exclusivity in a way that is not possible for most other biopharma companies.

Total royalty receipts grew 9% in the first quarter versus the year-ago period. Growth drivers in the quarter included cystic fibrosis franchise, Tysabri, and the new royalty on Tremfya. We also saw significant growth contributions from Promacta, from the Biohaven payments, and also, though not specified here, from Cabometyx and Evrysdi. As in the preceding two quarters, these positive factors more than offset the loss of contribution from our legacy HIV franchise.

Slide 9 drills deeper into our first quarter top-line performance to illustrate this point. As you see here, our 15% top-line growth in the quarter was powered by strong performance of our base business. This was partially offset by losses of exclusivity, mainly on the HIV franchise, which had a negative impact of close to 700 basis points, but were easily absorbed by the strength of our base business. In short, our unique business model and capabilities allows us to consistently replenish and grow our top line, and you can expect to hear more about this at our Investor Day.

Slide 10 shows how our royalty receipts translated to Adjusted Cash Flow. Similar to many of our peers in the biopharma industry, we have also updated the treatment of certain development-stage payments, which impacted our non-GAAP bottom line when compared with this historic presentation of our non-GAAP results. I will take you through the details of this update on the next slide, but I want to first highlight a few key points here.

First, we delivered 15% growth in Adjusted Cash Receipts in the quarter, continuing our double-digit top-line momentum. As you are aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrived at after deducting noncontrolling interests, and this is the central measure of our full year and long-term guidance. In the quarter, cash receipts were $605 million compared with $524 million in the year-ago quarter.

Second, as we move down the column, operating and professional costs equated to approximately 8% of Adjusted Cash Receipts, slightly below guidance of approximately 9% for the full year.

Third, as a consequence, we reported 15% growth in adjusted EBITDA in the quarter, which was consistent with our top-line growth. Adjusted EBITDA is an important non-GAAP financial measure for us and one of the three key non-GAAP metrics by which we measure our business performance.

Fourth, Net interest paid of $86 million reflected the first payment on the $1.3 billion of unsecured notes we issued in July 2021 as well as the timing of the semiannual interest payments associated with our original $6 billion unsecured note offering in 2020.

Fifth, we now include the $100 million development-stage payments related to our aficamten investment in our non-GAAP results. Previously, and consistent with industry practice, these payments would have been excluded from our non-GAAP results.

Lastly, after de minimis payments for ongoing development-stage funding and other items, this resulted in Adjusted Cash Flow, our bottom line of $367 million or $0.60 per share for the first quarter. The impact of the aficamten payments was equivalent to $0.16 per share. Of course, these accounting updates have no impact on the cash generation of our business.

Slide 11 provides more detail on the update to our non-GAAP financials. If we acquire royalties on approved or development-stage products, there is no change to how we reflect these in either our GAAP financial statements or our non-GAAP financial measures. These investments are capitalized on the balance sheet. Examples of recent royalty acquisitions in this category include Cabometyx, Tremfya and gantenerumab.

Likewise, if we acquire synthetic royalties on approved products, there is no change to our GAAP or non-GAAP presentation. These would also be capitalized on our balance sheet. Recent examples here include Orladeyo and the incremental royalty we acquired on Nurtec ODT in 2020. If, on the other hand, we acquired synthetic royalties on certain development-stage products, we will now treat the upfront payment as an expense in our non-GAAP financial measures.

The accounting treatment under the new guidance will be subject to the specifics of the transaction, including probability of success among other factors, and it should be noted that there would be no change on a GAAP basis. Examples of this type of transaction include aficamten, as I already highlighted, along with BCX9930 and two of the therapies from our MorphoSys deal, pelabresib and CPI-0209.

On the right-hand side, you can see how this new treatment of certain development-stage payments impacted our Adjusted Cash Flow over each of the past two years. In 2020, the impact would have been very minor, less than 0.5% as a result of our initial BCX9930 transaction with BioCryst. In 2021, by contrast, the impact on our Adjusted Cash Flow would have been approximately 11% as a result of the expanded partnership with BioCryst on BCX9930 and the MorphoSys transaction.

The creation of synthetic royalties on development-stage therapies continues to be an important opportunity for Royalty Pharma. And while the timing, size and structure of these deals are difficult to predict, we recognize that this new accounting treatment potentially introduces an element of volatility to our bottom line as we look forward. We will ensure that any development-stage payments falling under this treatment are transparent in our quarterly and annual reporting for the purposes of your financial modeling. We have also included updated non-GAAP quarterly financials for the years 2020 and 2021 in Tables 5 to 7 in the back of our press release.

Let's move now to Slide 12 and our financial position. We continue to maintain significant financial firepower. We deployed $199 million of capital on royalty acquisitions during the first quarter as well as $117 million on dividends and distributions. As a result of our strong cash flow generation, we had $2.3 billion of cash and marketable securities at the end of March, slightly above our position at the end of 2021.

Our leverage stands at 2.5x net debt to EBITDA and 3.6x total debt to EBITDA. With the fixed rate average coupon on our debt of slightly above 2%, which is significantly below our target returns on royalty acquisitions in the high single digits to teens percentage range. We continue to feel confident about our ability to execute on our business plan and create value for shareholders.

On Slide 13, we are well positioned for the current financial environment. As I just noted, we have a very attractive coupon on our debt portfolio, and we also benefit from a weighted maturity on our debt of around 13 years. We have limited near-term refinancing needs and any debt refinancing through 2025 would be expected to have a less than 1% impact on our weighted average cost of debt.

More broadly, with a commitment to our investment-grade credit rating, we expect to maintain attractive overall borrowing costs and deep access to fund our future capital deployment plans. The current equity market environment for biotech is also favorable to our business plan as royalties are becoming increasingly attractive as a source of funding given depressed stock valuation and as new M&A opportunities are being created. Of course, the bar for investments remains as high as ever. Though over time, we are confident in our ability to capitalize on the opportunity ahead and create value for shareholders.

Lastly, we are confident in our ability to maintain returns in this environment. There is a natural hedge through asset pricing against the background of rising interest rates. Furthermore, we have demonstrated through previous economic cycles, our ability to react quickly in a dynamic market and to maintain attractive returns. Our aim is to deliver attractive unlevered returns with enhancements on those returns through conservative leverage even at higher interest rates.

Now switching gears to upcoming milestones. Slide 14 highlights the expected clinical and regulatory events for our portfolio during 2022. In summary, the year started well with positive clinical trial results from Trodelvy and Tremfya and the European approval of Vydura, and the remainder of 2022 could have a number of potentially important milestones. We continue to anticipate Phase III results for a number of potentially transformative therapies, including from Cabometyx in combination with immunotherapy in a number of different settings: Johnson & Johnson seltorexant in depression, Roche's gantenerumab in Alzheimer's disease, Biohaven's oral migraine prevention therapy zavegepant, and GSK's otilimab in rheumatoid arthritis.

On the regulatory front, we would highlight expected filings of PT027 in asthma and intranasal zavegepant in migraine this quarter. In addition to potentially advancing the standard of care for patients, many of these milestones represent major commercial opportunities and could add significantly to our long-term growth outlook.

Lastly, we discussed on last quarter's call, the Cytokinetics transaction, in which we gained a royalty in aficamten, a potential new therapy for hypertrophic cardiomyopathy. I should note another event that is not on this slide is the recent FDA approval of Bristol's mavacamten, which brings a new treatment option to patients with hypertrophic cardiomyopathy, and is also very supportive of our thesis for aficamten.

On Slide 15, we are reaffirming our full year 2022 financial guidance despite an unfavorable impact from foreign exchange. We continue to expect Adjusted Cash Receipts to be in the range of $2.225 billion to $2.3 billion, an increase of between 5% to 8% over the $2.1 billion we delivered in 2021.

This outlook reflects the expected strong underlying performance of our royalty portfolio, partially offset by the residual impact of the loss of royalties on the HIV franchise in the first two quarters of the year as well as the end of the DPP-IV royalty term in March of this year, for which we will receive the last royalty receipts in the second quarter.

Additionally, at today's FX rates, we face a $30 million to $40 million unfavorable impact to Adjusted Cash Receipts compared to where rates were when we gave our initial guidance in February. Despite this, we have maintained our guidance for Adjusted Cash Receipts, again, highlighting the strength of our diversified portfolio. And consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account any future royalty acquisitions.

Turning to our operating costs. We continue to expect this to be approximately 9% of Adjusted Cash Receipts in 2022. Finally, net interest paid for full year 2022 is still expected to be around $170 million, reflecting the net interest associated with the bond offering in July 2021.

Moving to my final slide. Let me close by saying how pleased I am with our strong start to 2022 and that we really look forward to seeing you at our upcoming Investor Day. You can expect to hear detailed discussions of the outlook for royalty funding, our updated capital deployment opportunities and our long-term growth targets, and of course, you will have the opportunity to interact with the team and ask plenty of questions.

We are very excited to talk to you in more depth about Royalty Pharma's unique role at the heart of funding the golden age of life sciences innovation and why we are confident in our ability to deliver compounding attractive growth over the coming years.

With that, we would be happy to take your questions.

George Grofik - *Royalty Pharma plc - Senior VP and Head of IR & Communications*

We will now open up the call to questions. Operator, please take the first question. Operator?

QUESTIONS AND ANSWERS

Operator

Our first question comes from Chris Schott with JPMorgan.

Christopher Thomas Schott - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I just had two here kind of both about the environment that you're operating in. So we've had another kind of three or four months of biotech underperformance starting off 2022. And I guess as I think about what that means for Royalty Pharma, do you see this translating to improved yield terms, or do you think maybe better returns on transactions that are announced? Or is this more of a situation where we're seeing companies that maybe didn't look at royalty financing before now considering royalties, so made as an opportunity to deploy more capital than you have historically? Or I guess, is it just too early for these new valuations to even be reflected and the environment hasn't changed? So just like maybe is this first question, just like lay the land where we are.

And then the second one, which is kind of tied to this is, I'd just be interested in kind of the breadth of the opportunities you're seeing out here. It seems like on one hand, we've got a record number of private and kind of publicly traded biotech companies. On the other hand, it seems like some of biotech news flow has been skewed fairly negatively over the last 6 to 12 months. So as you look through this kind of much wider range of companies that are out there? Are you seeing the quality of assets that you'd like to see that would enable kind of sustaining these higher levels of capital deployment? So I think they're kind of related to each other, but I'd just love to hear thoughts on both of those.

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

Chris, it's Chris Hite. Thank you very much for the question. The -- I guess, the first question you asked, the lay of the land, we were extremely busy, as you might imagine. We think the opportunity set is really sort of consistent with what we've seen over the last several years. We see a lot of varying opportunities across the biopharma sector. And obviously, the SMID sector is very challenged, as you're quite aware, with a lot of stocks down. I'm sure that does result in a lot of them looking for alternative forms of capital. We're certainly looking at some of those opportunities. But I would just say that we continue to see a tremendous set of opportunities. We're very excited about our pipeline. And I'd say that's generally the lay of the land.

With regard to the second question, maybe Marshall wants to address that.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. On the second part of your question, we continue to see a very deep and broad set of opportunities as we think about the top of the funnel in our pipeline across therapeutic areas, stages, marketers, geographies. Kind of on every axis, I think we're seeing a really good variety of, an important part of your question, quality opportunities. That being said, I think as Terry mentioned in the prepared remarks, our quality bar is high.

We are first looking for important products that are going to be a great part of the Royalty Pharma portfolio, and that's where we start. And so the same discipline you've seen from us over the years will continue to very much apply in the current environment.

Christopher Thomas Schott - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And just a really quick follow-up to Chris. On the kind of discussions with companies, I think we're hearing from some of our large pharma companies or large biotech companies trying to acquire that they're not necessarily seeing some of the expectations for the targets having reset. Are you seeing a similar dynamic that we need to-- needs to go another like three or six months before companies maybe reconsider their financing alternatives? Or are you starting to see that, I guess, that mindset starting to change now?

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

It's a great question, Chris. I think with regard to maybe large pharma and thinking about M&A, certainly, when I was a banker doing that, the -- it is -- it does take companies a long time. My experience of thinking about resetting if their stocks are down. I think the royalty environment is completely different, quite frankly. It's more of, obviously, a financing environment. And as you've seen just really throughout our -- certainly our history and more recently, we really look at a broad set of opportunities, and that can be large pharma opportunities, helping on R&D that can be all of the deals you've seen us do really over the last several years. That's mid-cap biopharma that's helping companies R&D and launch. So we think it's a little -- obviously, a different set of expectations at the Board and the CEO level and the CFO level, then say, selling the company.

Operator

Our next question comes from Terence Flynn with Morgan Stanley.

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

Maybe two for me. I was just wondering, obviously, there's an upcoming Tremfya trial versus Stelara coming out in Crohn's disease. I was just wondering how you guys are thinking about that if that was embedded in your assumption as part of the MorphoSys deal? And then on the IPO R&D side, Terry, I was just wondering if you can give us any kind of sense or estimate of what this might represent for the full year? Again, I appreciate the slide where you kind of walk through the dynamics and how every deal is different. But again, any sense what this could represent on a full year basis?

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. Terence, it's Marshall. I'll start on Tremfya. So certainly, when we looked at Tremfya, the IBD opportunity was a significant important part of our thesis, both in terms of the quality of data we've seen from the class and then also J&J's strength as a marketer, having a very heavy presence in that marketplace. The study versus Tremfya -- excuse me, versus Stelara, certainly, we thought about that, especially in the context of there ultimately being Truvada biosimilars on the market, like we've seen in psoriasis. We like to see companies exploring potential for differentiation in terms of depth and speed of response like we've seen in other indications for this class. So we'll be -- we're excited for the Tremfya opportunity in IBD and pass it back over to Terry for the question on R&D.

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

Yes. Terence, standing here today, it's really going to be deal-flow dependent. So if we were to do a synthetic royal -- create a synthetic royalty on a development-stage therapy, then we would have an additional expense that would run through our non-GAAP P&L this year. But it's really -- as you know, it's tough for us to predict what deal flow will look like. We look at these things over sort of multiyear periods, and we try to just really focus on selecting, as Marshall just mentioned, selecting the best assets that would -- that will have the biggest impact on patients. And so these

can take a lot of different shapes and sizes and flavors. And some of these probably will be synthetic royalties on development-stage therapies over time because we do see a nice opportunity there. But it's tough to predict what it will look like for the rest of this year.

George Grofik - *Royalty Pharma plc - Senior VP and Head of IR & Communications*

Operator, we'll take the next question, please.

Operator

Our next question comes from Chris Shibutani with Goldman Sachs.

Chris Shibutani - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Two questions. First, appreciating your commentary on the HCM, hypertrophic cardiomyopathy market there. Obviously, you mentioned that we did achieve that milestone in the segment with the Bristol approval. New information there includes the label details, pricing of the first drug in class. And I would love to get your thoughts on both of those items as well as on how you see the competitive market playing out, given your exposure through aficamten?

And then the second would be related to the Alzheimer's disease outlook. During the interval in the past quarter, we have the final version of the NCD. There appeared to be some windows that could open in terms of how this could be interpreted and how things could be adapted as data comes in the second half of the year for assets, including obviously gantenerumab, which is your exposure. Would appreciate any thoughts there in terms of final NCD interpretations that you take?

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Chris, it's Marshall. Thanks for both of those questions. So the -- on the first question on the Cimzia's approval, like Terry mentioned, we were happy to see the first drug in the space approved and look forward to Bristol doing a lot of hard work and investing heavily to develop this marketplace. Our thoughts on the label and the pricing, as is our typical practice, we thought about a lot of different scenarios and did a lot of work trying to figure out what that program might look like. And I think what we saw was certainly within the realm of the -- within the range of the scenarios that we considered in our work and how we thought about the opportunity for aficamten.

So -- and we look forward to seeing the product launch and this market develop over time. And importantly, having Bristol there investing in the market, first was part of our thesis, was that Cytokinetics and aficamten would actually benefit from that. And so we'll see, I think. And the last part of your question is differentiation. I think certainly, there are some opportunities. We'll see how the aficamten development program unfolds. And as we learn more about the molecule, I think we'll probably have a more informed discussion on all of the opportunities for differentiation with time.

The second question on NCD, thanks for that. So overall, certainly, the CMS and the NCD was taking a different approach than maybe we've seen before. But I think if you take a big step back, like we've talked about since from the beginning when we made the gantenerumab investment is that what this class needs, and I think what the NCD at its essence is sort of asking for, is data sets that show clearly and convincingly and consistently what the clinical benefit and the right patients for this class of drugs are.

And I think certainly, the Roche program is set up to do that. I think others in the space, similarly, will have those kind of data sets. So I think the CMS laid out, as you indicated, some windows for what they're looking to see, and we're really looking forward to the next 12 months or so as we'll see -- 6 to 12 months actually at this point as we'll see -- start to see these trials roll out. And I think we'll be in a very different position with respect to this class, and we're excited to be a part of it.

Operator

Our next question comes from Geoff Meacham with Bank of America.

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

Just have a couple of quick ones. The first one is, your concentration risk has become increasingly investor concern across the industry. And I know you guys have a broad portfolio, but where does diversifying CF concentration fall into Royalty's strategic priority? It seems like a larger transaction would be more ideal to doing a bigger number of smaller deals.

And the second question is, and I guess, we'll hear more about it at the Investor Day. But where are you guys with respect to the diversity of therapeutic areas in the portfolio? I know there's a ton -- as been mentioned before, there's a ton of opportunities across SMID-cap biotech. But we can see in the case of say, oncology or other bigger indications, in some cases, you can have restrictive policies that may affect kind of growth assumptions. And so obviously, having a bigger diversity helps.

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

Geoff, I'll start on sort of our diversification goals. I think we don't have clear goals in terms of diversification. We think that we're deploying billions of dollars of capital year in and year out. And so I think that just naturally over time, we're going to continue to diversify away from -- the portfolio will continue to get more and more diversified. I don't think necessarily that, that means that we need to do a big deal. Those big deals will come every so often. But I think a lot of singles and doubles will accomplish the same thing when you add it all up. So I think that over time, we'll continue to diversify away from CF, but it will still be a really important element of our business, but just -- you're just going to see sort of natural diversification through our acquisition program. And then maybe I'll turn it over to Marshall to discuss the therapeutic areas.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

So on therapeutic area diversification, the simple answer to that is you just look at what we've done since the IPO in terms of the diversity of therapeutic areas that we've brought into the portfolio and participated in. It is really -- it is extremely broad. And so that's something that we're proud of and dovetails, I think, with Terry's answer too, that our ongoing business and fundamental strategy of trying to find the important drugs in a therapeutic area agnostic way will continue to diversify the portfolio. You make a great point. I think it's a great question that there are certain therapeutic areas from a competitive landscape and payer point of view are becoming more complex. I think that's just part of the industry that we work in and it's certainly part of our diligence when we're looking at new things.

Operator

Our next question comes from Umer Raffat with Evercore.

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

I had four today, if I may. Perhaps first, I appreciate your aligning with non-GAAP methods by big pharmas. However, I noticed you're only adjusting a fraction of each deal. For example, Cytokinetics, $450 million deal, but you're only incorporating $150 million, and the rest $300 million is being called commercial-stage. I guess I'm trying to understand because that's not how the pharmas are doing it. They're doing all of it, not a fraction of each deal. So just curious what your thought process is there. And if you think that thought process would hold with the SEC?

Second, my understanding also is when Pfizer makes a $350 million payment to Biohaven on their equity purchase, they are excluding that -- sorry, they are adding that back in for the non-GAAP purposes. I didn't see commentary on that on your Slide 11. So I was curious how that's going to get handled going forward for you guys. And I'm thinking partially like the $50 million stock purchase you did for BioCryst.

Third, I was really confused why a development-stage royalty that originate-- that's technically a third-party royalty will not be incorporated in your non-GAAP. Like, what's the logic behind that? And why shouldn't that be?

And then finally, I saw a disclosure that prior periods have been updated to conform to this new non-GAAP presentation. But then when I'm looking at the numbers for last year, they're exactly the same. It was $193 million, and it's still $193 million and the non-GAAP cash proceeds, they're also the same. So I was just confused why that is? And for example, I would have thought Minerva development-stage royalty should have been adjusted out, et cetera.

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

Okay. There's a lot there. So on Cytokinetics, the royalty portion to the extent that it's related to preapproval milestones will be -- previously that would have been excluded from our non-GAAP metrics, and now it will be included. There's also the development-stage funding bonds and -- or sorry, commercial launch capital that we're providing. And that's not something that's going to be included as an outflow in our non-GAAP metrics. That's the same idea with equity. When we make an equity purchase, it's not something that's going to be expensed. It's -- that's not -- that hasn't been our practice. It shows up on our balance sheet. You can see it in the investing section of our cash flow statement.

And then the question on the non-GAAP, the adjustments. I think it's pretty clear in the press release Tables 5 to 7 really walk through the impact. And you can see that it was $193 million less here, took Adjusted Cash Flow from $1.767 billion to $1.573 billion. That was an 11% impact. So I think that it is all there in the press release. And then your last question on the seltorexant. So that's a third-party royalty. And so those are capitalized on our balance sheet under U.S. GAAP, and they're not included in our non-GAAP metrics.

Operator

Our next question comes from Andrew Baum with Citi.

Andrew Simon Baum - *Citigroup Inc., Research Division - Global Head of Healthcare Research and MD*

Couple of questions, please, for Chris. Firstly, you've seen some large pharma companies continue to de-risk or deprioritize some of their assets. I'm obviously thinking about the Blackstone deal. Novartis and GSK are really looking to reduce exposure to some drugs. To what extent do these provide opportunities for you as opposed to more in the SMID biotech space?

And then second, the other side of the coin, we were surprised on the antitrust front that Pfizer went through, we've also seen somewhat uptick in M&A activities among the large cap, thinking most recently of the GSK-Sierra deal. To what extent are companies that previously may have been in discussions with you on synthetic royalties now looking more towards acquisitions given an industry which is focused on their forthcoming LOEs.

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

Andrew, thanks for the questions. With regard to the first one around potential opportunities at large pharma. Look, we look at everything. And to the extent there's an opportunity out there. One of the things we're extraordinarily proud of is our reach and our networking really across the industry and making sure large pharma and biopharma in general. And we'll get into some of these details at our Analyst Day. Just in the sense of just making sure they understand all of the ways that we can work with companies. And whether that's obviously funding R&D, helping companies commercially launch, helping companies look at maybe spinning things off and co-investing with people that want to invest in that. And we're

really looking at all types of different opportunities. So certainly, anything that large pharma is thinking about in a sense of their own portfolios and rationalizing those or investing in that, we're happy to take a look at that, and we -- you might imagine that we have those conversations.

With regard to your second question, the M&A landscape and the FTC landscape is always difficult to predict and shifts around. I think one thing that we clearly have looked at in the past and once again, I think large pharma knows that we are available to assist to the extent -- in really two ways, Andrew. So as large pharma is looking at a target and there's a nonstrategic financial asset in the form of a royalty or collaboration profits or something that's a target, that's not necessarily interesting to pharma. They're looking at the target for other reasons. We've certainly had those conversations in the past and look forward to having those in the future.

And the other way I think we can be helpful is to the extent there are forced divestitures out of -- by the FCC out of the target companies, we've also looked at that in the past, and can provide capital to maybe a smaller company that looks to build their own portfolio by buying that FTC forced divestiture. So who knows how the landscape shifts going forward. But we certainly look forward to playing a role really on both parts of your question.

Operator

Our next question comes from Greg Fraser with Truist Securities.

Gregory Daniel Fraser - *Truist Securities, Inc., Research Division - Research Analyst*

This might be something that you'll cover at the Investor Day. So I'm curious how you plan to evolve the company going forward that's different from what you've done in the past. Sort of what will be different over the next couple of years other than growth and size? And following up on the therapeutic area question, I'm curious about your view on biosimilars and whether you see the potential for good returns on biosimilar royalty deals?

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

So yes, I don't want to steal the thunder of our Investor Day. We have a lot to discuss there. I think why don't we save the first question for that, but we're very excited to describe the opportunity that we see ahead of us and to discuss sort of our long-term objectives at the Investor Day on May 17. And then I can turn it to Marshall on biosimilars.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. So it's a good question. And as you might imagine, we've looked at a significant number of biosimilar opportunities over the years. We can imagine a set of circumstances where something like that might be interesting. I think to date, it hasn't been something that, that met our criteria like we're seeing, there's been pretty significant price competition in that space. And so we've been taking the stance that maybe we can watch and wait and see how that landscape evolves and how those markets form before getting actively involved there.

Operator

Our next question comes from Steve Scala with Cowen.

Stephen Michael Scala - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Two questions. The first is just so I understand and maybe using aficamten as an example. Can we expect similar onetime charges on aficamten in the future? Or did this quarter represent the totality? I appreciate it is tough to predict future deals, but this is obviously an existing one? And then

second, I'm just curious, are there any provisions in the gantenerumab contract to compensate Royalty Pharma in any way if reimbursement was not available even if the drug were to be approved?

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

So on aficamten, yes, there is -- there could be an additional $50 million payment. We're not expecting that this year, but we haven't been any more specific than that. And that would also be sort of a onetime expense on our non-GAAP P&L. It's -- like I mentioned before, it's very difficult to predict how the deal flow will look and what the types of deals we will invest in, but we do expect to do more of these.

I think sort of taking a step back, the way we've always sort of thought about our Adjusted Cash Flow or our non-GAAP metrics is, this really reflects the sort of cash that the business produces on an ongoing basis that we can then go and redeploy into new royalties. And that's our primary focus. We also returned a little bit of it to shareholders in the form of a dividend. So previously, these were not at -- these sort of onetime payments were not included, consistent with industry practice, but we are updating how we present our non-GAAP financials to conform with the changes that the rest of the industry is making. And we'll try to -- we'll make sure that every quarter and when we announce the transaction, we're transparent about where this will show up. But it has no impact on sort of the fundamentals of the business or how we're thinking about deploying capital going forward.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

On the second part of your question, on gantenerumab. So as to whether or not there's any specific provisions with respect to what may happen with reimbursement. The answer to that is no. This is -- it's a pretty typical royalty in that way. So nothing special in terms of structure in that outcome. But I think it does just give us an opportunity to come back to what we said earlier on the call, which is that we're looking forward to seeing these trials read out. And if they show consistent and clinically significant benefits for patients, we expect there to be reimbursement access.

Operator

This concludes the question and answer session. I'd like to turn the call over to Terry Coyne for closing remarks.

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

Great. Thank you, operator, and thank you to everyone on the call for your continuing interest in Royalty Pharma. We all look forward to seeing you on May 17. If you have any follow-up questions, please feel free to reach out to George.

Operator

This concludes the program. You may now disconnect. Everyone, have a great day.