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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, SVP, 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 2023 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. The GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website.

And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, founder and Chief Executive Officer; Marshall Urist, EVP, Head of Research and Investments; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights, Marshall will then provide a portfolio update, after which Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session when we will be joined by Chris Hite, EVP, Vice Chairman.

With that, I'd like to turn the call over to Pablo.

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

Thank you, George, and welcome to everyone on the call. I am delighted to report a strong start to 2023 as we deliver on our strategy as a leading funder of innovation in life sciences. Slide 6 summarizes our financial and portfolio achievements in the first quarter, which again highlights our strong momentum and the power of our business model.

First, we delivered strong performance. Adjusted Cash Receipts, our top line grew by 11%, Adjusted EBITDA also by 11%, and Adjusted Cash Flow grew by 49%. All these strong metrics were prior to the Biohaven-related payments, which I will discuss on the next slide.

Second, on capital allocation, we announced royalty acquisitions of up to $1.6 billion, including $600 million in upfront payments and a multiyear share repurchase program of up to $1 billion. I also personally intend to acquire up to an additional $50 million of Royalty Pharma stock given the compelling value I believe the shares represent.

Third, we strengthened our royalty portfolio. We added three new therapies, including the SMA blockbuster Spinraza and the exciting development-stage therapies pelacarsen and KarXT, both of which are potential future blockbusters on consensus estimates.

Additionally, three medicines in our portfolio were approved by the FDA. Xtandi had a positive Phase 3 readout for a potential label expansion with the EMBARK study.

Fourth, we are reaffirming our increased full-year guidance for Adjusted Cash Receipts. Our guidance reflects expected underlying growth from our portfolio of between 4% and 9% prior to the Biohaven-related payments.

Consistent with our standard practice, our guidance is based on our current portfolio and does not include the benefit of any future acquisitions this year.

On Slide 7, you can see our financials in more detail. We delivered 11% growth in our top line prior to the Biohaven-related payments and 87% growth if we include this payment.

As a reminder, the major non-recurring items here are the $475 million milestone we received from Pfizer in March 2023, following the approval of Zavzpret for migraine, as well as the $13 million fixed Biohaven-related payments we received in the same period a year ago.

Foreign exchange continued to represent a headwind impacting our top line by around minus 3% to minus 4% in the quarter. Consistent with our top line, we grew our Adjusted EBITDA by 11% in the quarter prior to the Biohaven-related payments and 88% including this payment.

Adjusted EBITDA is an important non-GAAP measure for us, which is arrived at by deducting payments for operating and professional costs from our top line. Lastly, our Adjusted Cash Flow, our bottom line, grew by 49% in the quarter prior to the Biohaven-related payments and 165% including this payment.

The substantial increase in the quarter also reflected the $100 million upfront and milestone development-stage payments to Cytokinetics in the prior year.

Slide 8 shows our impressive track record of strong top-line growth since our IPO in June of 2020, including our double-digit growth in the first quarter. This reflects our ability to execute successfully and consistently against our strategy.

Slide 9 provides a deeper dive into our top-line performance in the quarter to show the various moving parts. The strong performance of our base business and our acquisition of the Trelegy royalties allowed us to deliver 11% top-line growth before taking into account the impact of the Biohaven-related payment.

Royalty expirations and foreign exchange together represented a combined headwind to growth in the 7% to 8% range. The strong underlying dynamics in the quarter once again underscore the unique power of our business model to replenish our portfolio and to drive compounding growth.

With that, I will hand it over to Marshall to update you on our portfolio.

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

Thanks, Pablo. On the next few slides, I want to discuss our recent transactions in schizophrenia and also to provide a broader perspective on our approach to portfolio strategy.

Last month, we were delighted to announce the acquisition of PureTech's royalty on Karuna's KarXT. This is a novel oral muscarinic agonist with two positive Phase 3 trials in schizophrenia. KarXT is also in development for the treatment of psychosis in Alzheimer's disease.

In return for an upfront payment of $100 million and $400 million in potential regulatory and sales milestones, we will receive a 3% royalty on annual sales of KarXT up to $2 billion and approximately 1% above this threshold.

To provide some context for modeling the potential outflows for this transaction, the vast majority of the milestones require very strong commercial performance.

Our excitement about this development-stage medicine is driven by the results of the clinical program, including two Phase 3 studies, EMERGENT-2 and EMERGENT-3 and the significant need for new novel therapies in schizophrenia. Not only did the trials demonstrate early and sustained reductions in the positive and negative symptoms of schizophrenia, but importantly, the tolerability profile was very encouraging, especially regarding some of those common adverse events typically associated with current medications, including weight gain, somnolence, and extrapyramidal symptoms.

Based on these strong results, Karuna plans to submit a new drug application to the FDA in the third quarter of this year. The Street has certainly recognized the exciting profile of this compound with consensus sales projections rising to $5 billion by 2030.

Slide 12 expands on the significant unmet need for new treatments in schizophrenia. On the left-hand side, you can see that close to 1/3 of patients do not respond to current therapy and only about 1/2 have a partial improvement or suffer unacceptable side effects.

When taken together with the particular challenges of this disease, this results in approximately 3/4 of patients discontinuing treatment within 18 months, which underscores the need for new treatment approaches. This is why we are so excited to have invested in two novel mechanisms of action through KarXT and MK-8189.

Each potentially offers a differentiated clinical profile from current medications, most notably on tolerability. KarXT, as I just highlighted, has already reported positive Phase 3 results and will be marketed by Karuna, subject to FDA approval, and MK-8189 is a PDE10A inhibitor in Phase 2b where a potential royalty arises from a unique collaboration between Royalty Pharma and Merck.

Taken together, this is another illustration of our unique ability to invest in multiple therapies in the same category where we see the potential for innovation to transform patient lives.

Slide 13 returns to a concept that we showed at our Investor Day last year on selected investment themes of interest. Our investments in the schizophrenia category are consistent with two of these themes.

The first is to explore the potential of under-innovated large markets, where there has arguably been less industry focus given the shift towards specialty markets with smaller patient populations and higher price points. Schizophrenia is a great example of a large under-innovated market, and we believe that KarXT and MK-8189 could bring important benefits to patients in this complex and difficult-to-treat population.

In addition, we believe brain disease has tremendous scope for innovation with limited effective treatment options in many cases. Schizophrenia sits squarely in this heterogeneous category.

Lastly, on Slide 14, I want to provide a long-term perspective on our balanced royalty acquisition strategy.

This data shows how we have deployed our capital since 2012 between approved and development-stage opportunities. On the left-hand side, you see that since we started investing in development-stage therapies in 2012, of the approximately $21 billion in capital deployed, the majority of the investments have been in approved products.

On the right-hand side, you can see that the percentage deployed annually has exhibited significant variability on an annual basis, in part reflecting the opportunistic nature of our business, but in aggregate has also been skewed towards approved products on average at 59% of total capital.

So while we do not have target levels of investment between approved and development stage, our therapeutic area agnostic approach to investing and position as the partner of choice in the royalty funding market has allowed us to fund innovation in a balanced way while maintaining strong returns and long-term growth.

With that, I'll hand over to Terry.

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

Thanks, Marshall. Let's move to Slide 16. Total royalty receipts grew 72% in the first quarter versus the year ago period. Excluding the Biohaven-related payments in each quarter, Royalty receipts grew approximately 8%. The magnitude of growth reflects the $475 million Zavzpret milestone payment, together with strong contributions from the cystic fibrosis franchise, Tremfya and the Trelegy royalty, which we acquired last July.

We also saw growing royalty contributions from Evrysdi and Cabometyx and from other medicines not shown on this slide, particularly Trodelvy and Orladeyo.

Lastly, we received a $35 million payment related to AstraZeneca's Airsupra.

These positive factors were partially offset by the loss of the DPP-IV royalties, by weakness in Imbruvica and to a lesser extent, Tysabri and by the adverse FX impact.

Slide 17 shows how our efficient business model generates substantial cash flow to be redeployed. As you're aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrived at after deducting distributions to non-controlling interests. This amounted to $1.1 billion in the quarter or growth of 87% compared with last year's first quarter. As Pablo noted earlier, prior to the impact of Biohaven-related payments, growth would have been 11% in the quarter.

As we move down the column, operating and professional costs were approximately 8% of Adjusted Cash Receipts in the quarter. As a consequence, we reported 88% growth in Adjusted EBITDA in the quarter, relatively consistent with our top-line growth.

When we think of the cash generated by the business to be redeployed into new value-enhancing royalties, we look to Adjusted EBITDA less net interest paid. Net interest paid in the quarter of $67 million reflected the semiannual timing of the payments on our $7.3 billion of unsecured notes which occur in the first and third quarters.

This figure included $16 million we received in interest given the strong cash position on our balance sheet, which benefited from higher interest rates. We did not have upfront and milestone payments for development-stage funding in the quarter, whereas the prior year period included a $100 million payment related to Cytokinetics.

As a consequence, Adjusted Cash Flow, our bottom line, grew significantly faster than Adjusted Cash Receipts and Adjusted EBITDA and amounted to $973 million or $1.60 per share for the quarter. This resulted in an Adjusted Cash Flow margin of 86%, which once again highlights the efficiency of our business model.

Let's move now to Slide 18 and our financial position. We continue to maintain significant financial firepower for future royalty acquisitions. In the first quarter, we deployed a little over $600 million of capital on royalty acquisitions as well as around $120 million on dividends.

This was more than offset by our strong cash flow generation over the quarter, so that our cash and marketable securities increased to $2 billion at the end of March. Our leverage at the end of the quarter stood at a comfortable 2.3x total debt-to-EBITDA and 1.7x net debt-to-EBITDA.

As I have previously highlighted, the fixed rate average coupon on our debt is slightly above 2%, which compares to our target returns on royalty acquisitions in the high single-digit to teens percentage range.

In addition, around 60% of our debt matures in 2030 or beyond. Taken together, we continue to believe that our cost of capital and debt maturity profile represent a durable competitive advantage for our business. Based on our financial strength and efficient business model, we remain confident in our ability to execute on our business plan and create value for shareholders.

On Slide 19, I want to remind you of our capital allocation strategy and how we expect this to drive shareholder value creation.

At our Investor Day last May, we outlined that over a five-year period through a combination of cash generation and our debt capacity, we expect to have access to around $20 billion of capital. As you can see on this slide, the majority of our capital will be deployed on value-enhancing royalty acquisitions, with a target of $10 billion to $12 billion invested over the period.

In fact, as many of you are aware, we are running a bit ahead of this schedule, having announced transactions of up to $5 billion since 2022.

Furthermore, given the tailwinds in our industry and our powerful market position, our transaction pipeline continues to remain robust and highly active. We aim to balance this primary focus on royalty acquisitions with returning capital to shareholders through a combination of dividends and when appropriate, share repurchases.

Recently, the Board authorized a multiyear share buyback program of up to $1 billion, which is a reflection of the compelling value we see in our share price and our focus on efficient capital allocation to drive shareholder returns. By executing against this capital allocation strategy, we are confident we will continue to deliver on our mission of accelerating innovation in life sciences while generating strong returns and creating significant shareholder value.

Slide 20 provides our full year 2023 financial guidance. We expect Adjusted Cash Receipts to be in the range of $2.85 billion to $2.95 billion, consistent with the raised outlook we provided in March following receipt of the Zavzpret milestone payment.

Importantly, and consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account the benefit of any future royalty acquisitions.

Turning to our operating costs, we expect payments for operating and professional costs to be approximately 8% to 9% of Adjusted Cash Receipts in 2023, in line with previous guidance.

We continue to believe that the degree of margin protection provided by our unique business model is impressive in today's inflationary environment. Similarly, interest paid for full year 2023 is still expected to be around $170 million and to follow the established quarterly pattern with de minimis amounts payable in Q2 and Q4. This does not take into account interest received on our cash balance, which was $16 million in the first quarter.

You should also note that we expect to make a $50 million milestone payment to Cytokinetics in the second half of 2023 based on the company's guidance of initiating their pivotal trial of aficamten in non-obstructive hypertrophic cardiomyopathy. This $50 million expense will be recorded as a development-stage funding payment and thus reduce Adjusted Cash Flow this year.

Lastly, as many of you are aware, the royalties we receive lag product sales by one quarter. Additionally, several of our largest royalties are tiered, which typically reset at the beginning of the year and have the potential to increase throughout the year. Therefore, there is some seasonality to our business, and the second quarter tends to be lower than other quarters in the year, and the first quarter tends to be higher. Accordingly, we would expect Adjusted Cash Receipts in the second quarter to be slightly higher compared with the same quarter in 2022.

My final slide drills down further on our Adjusted Cash Receipts guidance. The graphic is illustrative, but sets out the various pushes and pulls behind our outlook for 2023. Starting with the left-hand side, we have faced a high base of comparison due to the $509 million of Biohaven-related payments which we received in 2022. Adjusting for these payments brings the underlying base for 2022 Adjusted Cash Receipts to $2.28 billion.

On the right side, if we start from the Adjusted Cash Receipt base prior to Biohaven, we expect underlying growth of 4% to 9% this year, which we anticipate to be driven by the CF franchise, Tremfya and a full year of Trelegy royalties, partially offset by the losses of exclusivity on the DPP-IVs and Imbruvica weakness, which we believe we have conservatively reflected in our guidance. We also expect a modest contribution from three quarters of Spinraza royalties.

As mentioned earlier, this growth does not include the benefit of any future acquisitions.

Using today's U.S. dollar exchange rates, FX is expected to represent a relatively modest headwind of minus 1% to minus 2%. Putting this all together, including the $475 million milestone payment on Zavzpret, we are reaffirming our increased top-line guidance of $2.85 billion to $2.95 billion.

With that, I would like to hand the call back to Pablo for his closing comments.

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

Thanks, Terry. Let me close by saying how pleased I am with our excellent start to 2023. This sets us up well to deliver on our guidance for the full year and to continue to execute strongly against our strategy.

To finish on Slide 23, I would like to highlight why Royalty Pharma's business model offers a unique way to invest in biopharma.

Starting with growth. As we announced at our Investor Day, we expect to deliver a top-line CAGR of more than 10% or more over this decade, which compares with consensus expectations of 4% for large biopharma.

Despite being a relatively small company in terms of headcount, we offer the benefits of scale with exposure to 15 blockbuster medicines as compared with an average of nine for the large biopharma companies.

We have a similar low cost of capital, where our development-stage investments tend to be lower risk as we generally do not invest in therapies before clinical proof-of-concept, thereby avoiding the high failure rate of preclinical and early-stage clinical compounds.

We have consistently delivered an attractive low double-digit rate of return on our investments, and while we are unable to provide a precise comparison with large biopharma, as you know, the R&D productivity of the industry and returns on acquisitions are open for debate. We also offer a yield of around 2%.

And last but not least, our management team is fully aligned with shareholder interests with high ownership of the company, which is significantly higher than the management ownership in large biopharma. The ownership for named executive officers of Royalty Pharma is 16%, which compares to less than 1% for our large cap biopharma peers. However, when we consider all employees and the Board, ownership of Royalty Pharma is even higher at around 32%.

Taken together, I truly believe Royalty Pharma offers a unique, powerful business model with a very attractive growth and return profile when compared to the biopharma industry.

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

QUESTIONS AND ANSWERS

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

We'll now open up the call to your questions. Operator, please take the first question.

Operator

The first question comes from the line of Chris Shibutani from Goldman Sachs.

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

Appreciate the updates. You talked about a balance between the development-stage and the commercial royalties. Do you feel that, that balance is the correct one for you, roughly 59%, 60%? And is that reflected in terms of the funnel? Historically, you've talked about all of the screening that you do across the different landscapes.

And I ask that question in particular, and I know that these were some of the selected investment themes, but you talked about sort of areas where there's underinvestment in terms of innovation for large TAMs, neurologic diseases, et cetera, which seem to skew more towards taking some development type risk.

And then relatedly, can you comment on what your team's thoughts are, we recently in the Alzheimer's disease area, had some incremental news that continues to move forward the beta-amyloid hypothesis there.

Do you see opportunity, neurodegeneration as mentioned, but in particular, for Alzheimer's disease, where we are, I'd love to get your thoughts on sort of the outlook there and how you view that as a potential realm for opportunity.

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

Thanks, Chris. This is a question for you, Marshall.

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

I think there were three basic questions there. The first was how do we feel about the overall balance of approved versus development stage in our portfolio, and overall, as we've highlighted, we feel really confident in our overall strategy here and how our focus continues to be on finding the therapies that are important to patients, to physicians, to the medical system that make sense for our portfolio. And I think, we're going to continue to focus on those. And as you've seen -- as you can see on Slide 14, that has yielded a really comfortable balance of approved and development-stage therapies.

So I think, overall, we feel really comfortable with where we are and we'll continue to -- and we'll continue to prosecute that strategy as we have been.

The second question there was, do the overall themes that we highlighted suggest that there'll be more of a focus on development stage. And overall, I'd say no to that for a couple of reasons. I think one is that as we -- as I said in the prepared remarks, these investment themes are overall themes of interest, but they aren't necessarily driving day-to-day how we look at the opportunities in front of us. So these are themes that we think are really interesting, but they are just that: themes, and we're going to continue to stay really focused on the strategy that I talked about. And yes, there are some examples on here of development-stage investments. But at the same time, I think there's other areas where we've made investments in approved therapies that would be consistent with these themes. An under-innovated large market, certainly, we felt like when we made the Trelegy investment, this was another area where there had been less investment by large pharma, and this was a leading therapy and still a very large category. So just as an example.

The third part of your question was about Alzheimer's disease. It's been great to see all the success there for patients, and it looks like we're going to have multiple therapies in that category. We think that is an exciting area and continues to be something that we're monitoring and looking for potential opportunities there as they make sense for us.

Operator

The next question comes from the line of Chris Schott of JPMorgan.

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

I just had another one on just the environment. I guess, can you just elaborate a bit on the, I guess, the tone of the conversation you're having with potential partners? I guess, specifically, have kind of the needs and objectives of some of these partners changed at all given the prolonged challenges in the biotech funding environment? And is that kind of changing the way you're thinking about the type of deals or structures of deals you're doing?

And then the second piece of that is just about the competitive landscape. So I guess with -- on one hand, higher interest rates, but maybe on the other hand, seemingly more involvement of the large-cap biopharma names looking to either like partner acquire assets in some of the verticals that you're targeting as well. Are you seeing kind of a different competitive arena than you might have thought about kind of two or three years ago? Or is that largely kind of the same as what you've experienced?

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

Thanks, Chris. Chris can address your question.

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

Thanks for your question, Chris. On the first one on the tone, as we showed some pretty good slides at our last quarter -- quarterly call, which talked about just the number, how the royalty market is growing and how our initial reviews have gone up, I think, 75% since 2019. So in the backdrop of the royalty markets growing six-fold since 2015 in the sense of number of deals, 10-fold since 2015 in the number of dollar value of transactions. With that as a backdrop, of course, the capital markets environment is challenging for biopharma right now. And I think that's in part what has led to a little bit of the increase in our number of opportunity sets. But keep in mind, in 2020 and 2021, the capital markets were extraordinarily robust, and we still announced lots of transactions. So the tone of the market is one in which we see a lot of opportunity, but we're going to continue to be very selective in the deals that we do. So I guess that's how I'd answer the first question.

And then the second question, as it relates to competition, once again, we see some deals are competitive. Some deals are not. The nature of the competition hasn't really changed on the backdrop of the overall environment growing. This is a growing marketplace in biopharma land. We continue to dominate that marketplace with greater than 50% share, especially on the larger transactions. So we certainly see a growing environment.

We welcome competition. It's certainly there. But we feel very confident with our competitive advantages, especially around our cost of capital and our access to capital.

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

I think our competitive advantages have even increased since we went public in many ways, but we can talk about that more later.

Operator

The next question comes from the line of Steve Scala from Cowen.

Stephen Scala - *TD Cowen, Research Division - MD & Senior Research Analyst*

I have two questions. First, GSK seems to be refocusing on respiratory overall after deemphasizing it a few years ago, entering the chronic cough space is a recent example of that. I assume this could have impact on future royalties of Trelegy in a positive way. Is there any stipulations in the contract either positive or negative that could reflect GSK's commitment adjustments to respiratory in the future?

Secondly, I think you've been asked this before, but given how quickly the market is developing, I thought it might be worth asking again. And that is that Royalty Pharma has no exposure to obesity. I can think of three reasons for this; number one, you have not come across opportunities; two, there are opportunities but you don't like the molecules or terms; or three, you are not convinced on the size of the market. I'm wondering if you can tell us which of those three is the most prominent factor that you're not involved in obesity?

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

Sure, Steve. Good questions. Marshall, why don't you take those?

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

Sure. Thanks, Steve. So on GSK and Trelegy, thanks for highlighting that. We are excited to see GSK focusing on something like chronic cough, which is an interesting market, and as you point out, is consistent with their focus on respiratory disease and the general medicine category. I don't think there's anything -- to answer your question -- there's nothing specific in the contract with respect to that. Although I would just highlight a couple of things. The first is as part of diligence on that, we did get a sense of and tried to diligence GSK's commitment and investment in Trelegy and that was part of our evaluation process. But overall, taking a little step back, Trelegy is a good example of the types of products that we really get excited about. It's large, it's growing into a -- as highlighted on a previous question a little bit -- an under-innovated unfocused on market and is really attracting investment by GSK and is a really important product over there. And I think when our interests are aligned with a great company like GSK in a category where they're a real leader, that's the kind of thing that we get really excited about.

On obesity, thanks for bringing that up as well. I agree with you, such an exciting space with a lot going on. It is a category of interest there. And without kind of ranking your three factors there, I think we'll continue to apply our same approach there of looking for opportunities that -- where we can find a win-win for us, for our partner, and we'll continue to apply the same strategy of looking for the right opportunities to get involved at the right time. But thanks for the questions.

Operator

The next question comes from the line of Terence Flynn from Morgan Stanley.

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

Maybe for me on Tremfya, this is one of your larger potential royalty streams and there have been, I'd say, a growing interest in new oral immunology drugs here. And so as you think about the implications of the entry of the TYK2 inhibitors or potentially an oral IL-23? Maybe, Marshall, how do you see this market evolving?

And then just one follow-up on the kind of deal flow for the year. Maybe any more metrics you could cite, Chris, in terms of how that backlog is playing out over the course of this year versus last year?

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

Sure. Maybe I can start on the first one, and Chris can comment on the second question.

So on Tremfya, again, a medicine that we are really, really excited to have as a part of the portfolio and having one of the best marketers in the world in Janssen, behind it is some of the same themes that we just touched on with Trelegy as well as why we're really excited about this.

I think the -- both the -- putting together the incredible efficacy of Tremfya, the dosing convenience, the strength of the market, their position, both in terms of physicians' minds, their position commercially, label expansion into IBD, I think we're really excited about Tremfya's future.

We are following the entry of orals. As we've seen historically, this space has had a really interesting and underestimated capacity to find roles for new products just given the need for patient choice and the unmet need here.

And that's our view overall. I think we're still really -- we're excited about both categories of Tremfya and the injectables as well as some of the really interesting things that are going on in the -- on the oral space. So that's our overall view there, and Chris can talk about our deal flow.

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

Sure. Yes. So the -- as we stated in the past, deal flow in any given year is hard to predict and can be volatile, which is why we describe our capital deployment targets over a multiyear period. So I would just encourage you to keep that in the back of your head. But obviously, last year, we executed $3.5 billion of announced transaction value and $2 billion of which was upfront. And already this year, we've announced $1.6 billion in transaction value of which $600 million was upfront. So we feel we're off to a great year.

Last year, we looked at over 350 opportunities and less than 3% of those opportunities we actually-- resulted in transactions. So it's a very small percentage that we actually transact upon. The environment, as you might imagine, is extraordinarily robust. And we are extraordinarily excited about our opportunity set. And that's why we've raised our guidance and talked about the $10 billion to $12 billion capital deployment over the next five years. We're very comfortable with that. So I think everything is really sort of ticking in the sense of the backdrop of the overall royalty market growing, as I mentioned, 10-fold since 2015, and our opportunity set itself, we're really excited about the pipeline.

Operator

The next question comes from the line of Geoff Meacham of Bank of America.

Susan Chor - *Bank of America - Equity Research Associate*

This is Susan on for Geoff. First, just a broader question. We've seen a lot of M&A deals this year and the valuations have been relatively high. Have you guys seen an uptick in asset valuations with the M&A environment getting better?

And then two, just a question on under-innovated markets. Can you tell us more about what's new and of interest within migraines beyond anti-CRPs, which from our research has really just been the dominant asset in migraine so far?

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

Regarding M&A, I think it's important to note that there are sort of different markets, right? When companies are acquiring other companies, the pricing of those deals is based on different metrics than the metrics we use when we're acquiring royalties. And with very different -- and there's obviously, in some respects, the strategic components when a company acquires another company. And in our case, when we are investing in royalties, it's more of a financial-driven analysis where we're looking always at very attractive positive returns. And we've in the past, covered sort of returns we're seeking.

But the other thing I would mention is that it's exciting to see all of this M&A activity happening because they do present opportunities for us to acquire royalties once the company has been acquired and the acquirer is more interested in potentially selling non-core strategic assets and there's been many transactions in the past that fall in that category.

We're also working with acquirers when they're looking at potential acquisitions, for us to partner with them and deploy capital side-by-side with them to make their acquisitions more efficient.

And then maybe I'll turn it over to Marshall for the migraine question.

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

Sure. Great question and a really interesting one. Overall, I think the things in -- or earlier things in migraine are programs that we continue to monitor. But I think the really important theme to keep in mind is the CGRP inhibitors, in our mind, are still in the early innings of their rollout and their ability to really impact how migraine is managed.

So I think it will be great to watch in the years to come, how Pfizer and AbbVie are able to really broaden the prescriber base for the CGRP inhibitors and continue to penetrate into the still dominant Triptan class and we're excited to see them do that, and also what happens globally as well. So that's -- I think that's the real focus on -- in our mind right now, and we'll continue to follow what's happening in the earlier development stages.

Operator

Your next question comes from the line of Umer Raffat of Evercore ISI.

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

This is Mike DiFiore in for Umer. Two for me. With respect to the IRA, the CMS guidance documents specifically call out the terms active moiety versus active ingredient. As it respectively pertains to identifying, qualifying single-source small molecule and biologic drugs, whereby drug products, i.e., small molecule products with the same active moiety will be considered single source, and biologic products with the same active ingredient will be considered single source. All that said, what are your thoughts on this? And does this influence your willingness to invest in royalties linked to reformulated biologic drugs?

And then similarly, but separately, your thoughts on how the CMS guidance documents bodes for fixed-dose combination products such as Trelegy Ellipta and Airsupra?

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

Sure. Marshall, could you take this question?

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

Sure. Yes. So, two questions there. I think, first on the active ingredient versus active moiety question. That's something that we have talked with the external consultants and advisers that we use to -- as we continue to all follow IRA. You guys have done some interesting work there as well in terms of defining that issue.

So it's something we continue to follow. I think it highlights an important point, though, which is our overall -- our overall strength of our business model in this IRA era, which is as we learn new things, about how the IRA will be implemented as we are -- and as we work through that, we can implement that in our investment process and are right now in terms of looking at -- and it has become, I think, as for all of us, a really core part of how we look at every project, which is what is the potential exposure to IRA, what are the scenarios and work through that and it fits really well with our scenario-based approach that we've talked about before.

On fixed dose combinations, I think there, the world seems a little bit more clear that those are considered -- that they are considered kind of individual products, which was kind of consistent with our expectation, and will have their own kind of clock from an IRA perspective. So that's our view.

Like I said, we're continuing to follow it and confer with all the outside advisers who we use to continue to process all the new learnings about IRA.

Operator

The next question comes from the line of Ash Verma of UBS.

Ashwani Verma - *UBS Investment Bank, Research Division - Director of Americas Equity Research & US Specialty Pharma Analyst*

So just a different angle on the M&A. So as you look at the -- your deal-making environment for royalties with these biotech companies, do you think the M&A exit route for them directly competes with them trying to monetize the assets via the royalty route? And in your view, like do the strategic acquirers kind of prefer targeting wholly-owned assets with unencumbered economics, and so biotechs might be hesitant to get into royalty agreements before if they want to sell eventually?

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

Thank you for your question. But on our side, we were all shaking our heads not really being able to listen to the first part of your question clearly. So I don't know if maybe you can come closer to the microphone or something, but it was hard just to understand, sorry.

Ashwani Verma - *UBS Investment Bank, Research Division - Director of Americas Equity Research & US Specialty Pharma Analyst*

Yes. So here, -- like do you think when you're making these deals with the biotech companies, do you think that the M&A exit route for them kind of directly competes with them trying to monetize the asset via the royalty route? What I'm trying to get a sense is like if the strategic acquirers, do they prefer assets with unencumbered royalty? And that's why the biotech companies might be hesitant into getting a royalty arrangement with you if they eventually want to sell.

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

Chris, why don't you take the question?

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

Sure. Thanks, Ash, for the question. Generally speaking, the pharmaceutical universe, right, I mean, just the history, and I think we actually covered this in our Analyst Day last year with the slide showing just a number of partnerships and royalties associated with products that are getting developed these days, because the -- it's such a fragmented R&D process that there's oftentimes royalties associated with every product or partnership profits or however you want to define that. And that's just the nature of the universe that pharmaceuticals -- that's just the nature of the universe that we live in.

And so when pharmaceutical companies are looking at acquiring a company, they are modeling whatever the economics of that product are. And most of the acquisitions come with an encumbered product. So that's just very regular way for large pharma when they're looking at a target and they're used to that, and so is the companies that we talk to. And obviously, we had deals with Biohaven and Immunomedics, both where we have royalties and both ended up being acquired. But as a former person who did a lot of those transactions representing large pharma on the banking side, it's just part of the way they think about, it's just the universe that they live in. And so it's not really something that prevents M&A, and it's not really something that prevents a company to do a transaction with us on the royalty side. So it doesn't prevent our business flow and it's not a chill to the M&A environment either.

Operator

At this time, I'd like to turn it back over to Pablo for further comments.

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

Sure. Thank you, operator. And thank you to everyone on the call for your continued interest in Royalty Pharma. If you have any follow-up questions, please feel free to reach out to George. Thank you.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.
