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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma second-quarter 2020 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 - SVP, Head of IR and Communications

Thank you, operator, and good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's second-quarter results. You can find the slides to this call on the investors page of our website at royaltypharma.com.

On 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. I refer you to our S-1 prospectus on file with the SEC for a description of these risk factors.

With that, please advance to slide 4. Our speakers on the call today are Pablo Legorreta, founder and Chief Executive Officer; Marshall Urist, SVP, Research and Investments; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights of the quarter, after which Marshall will provide an update on recent royalty acquisitions. Terry will then review the financials. And after concluding remarks from Pablo, we will hold the Q&A session. Chris Hite, our Vice Chairman, and George Lloyd will also join the Q&A session.

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

Pablo Legorreta - Royalty Pharma plc - CEO

Thank you, George. It is a pleasure for me to open our first earnings call as a public company. 2020 has truly been a landmark year for Royalty Pharma, which had a very successful IPO raising $1.9 billion in net proceeds, positioning us well to execute on our next phase of growth. At the same time, we continue to deliver excellent financial results with strong double-digit growth in adjusted cash receipts and adjusted cash flow, what we view as our top and bottom line.

Meanwhile, we expanded our portfolio to renew royalty transactions and important regulatory approvals. Lastly, we strengthened our corporate governance with the Board appointments of Bonnie Bassler, Cathy Engelbert, Henry Fernandez, and Ted Love. Our four new appointees bring a huge amount of financial, business, and scientific expertise to the Board as well as strong leadership. Their guidance will be important as we continue to build our position as the partner of choice for funding innovation across the life sciences R&D ecosystem.

On slide 7, the IPO really was a major milestone for Royalty Pharma, and a logical next step in the evolution of our business. Our mission is to be the leading funder of innovation in life sciences, and the capital provided by the IPO, as well as access to the deepest equity markets, will be important tools in our mission. In addition, we now have a much broader shareholder base to grow with us over time.

And as I mentioned up front, we continue to deliver strong financial performance. I am proud on our first earnings call to report growth of the magnitude you see on slide 8, with 24% growth in second-quarter adjusted cash receipts and 47% growth in adjusted cash flow. This type of growth speaks to our unique position within the biopharma ecosystem as well as the extraordinary innovation currently taking place in the industry.

I will hand over now to Marshall to tell you about some of our exciting recent acquisitions.

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

Thank you, Pablo, and good morning and good afternoon to everyone. On slide 10, as you may recall, we said at the time of our IPO that we expected to deploy capital of around $1.5 billion per year on average over the longer term to acquire new royalty. So far in 2020, we have already announced royalty transactions that exceed this figure.

Most of the $1.7 billion in investment is represented by the four transactions shown here, which are our deals for risdiplam, IDHIFA, and Prevymis, and two new agreements further expanding our collaboration with Biohaven. These products are all unique, ranging from migraine to rare disease, from virology to cancer, reflecting our unique ability to invest across therapeutic areas.

The most recent was two deals with Biohaven for up to $450 million and truly shows the power of the Royalty Pharma model. There are two distinct transactions. First, we are investing up to $250 million in exchange for additional royalty royalties on Nurtec and zavegepant. We are also eligible to receive milestone payments of up to 2.95x the funding amount following regulatory approvals of zavegepant, including a 1.9x multiple on regulatory approval of zavegepant in migraine.

Second, we are investing $200 million between 2021 and 2024 in commercial launch preferred equity providing important funding for Biohaven to accelerate the commercial launch efforts for Nurtec. We believe this transaction is a great example of the creative flexible solution that Royalty Pharma can provide its partners, creating a true win-win collaboration.

With risdiplam, we made a $650 million investment in an exciting SMA product that will serve a large need for patients with this devastating disease by giving them an effective oral option. As you may have seen, this product was approved with a broad label on Friday and given the brand name Evrysdi.

Now, without getting too deep into the detail on a deal-by-deal basis, I would highlight that each of these transactions scores highly on our list of key criteria we look for in our acquisitions. That is, each represents a differentiated transformative medicine in an area of high patient need, each has a marketer who we believe is motivated and capable of optimizing the commercial potential of the product, and each has a long duration of

IP protection. We remain excited by our pipeline and the unique opportunities in front of us to continue to add attractive royalties to our already diversified portfolio.

With that, I will hand over to Terry.

Terry Coyne - Royalty Pharma plc - EVP and CFO

Thanks, Marshall. Let's move to slide 12. We had a strong quarter with total royalty receipts up 20% compared to Q2 2019 on a pro forma basis. As you can see on this chart, each of our top five products and franchises delivered very strong double-digit growth. In particular, royalties from our largest franchise, cystic fibrosis, grew 59% this quarter. One point to mention on this slide: other products include the $21 million one-time distribution related to our Avillion collaboration.

Slide 13 shows how our royalty receipts translated to strong adjusted cash flow in the quarter. As you are aware, adjusted cash receipts is a key non-GAAP metric for us, which we arrive at after deducting distributions to noncontrolling interests. Adjusted cash receipts amounted to $462 million in the quarter, growth of 24% compared to Q2 2019 on a pro forma basis.

When we move left to right, operating and professional costs of $44 million equated to 9.6% of adjusted cash receipts, in part reflecting IPO expenses. R&D funding was modest, given the completion of our Ibrance adjuvant breast cancer funding in 2019. Net interest of $31 million reflect improved cost of debt from our refinancing earlier this year and decreased nearly 50% from last year's second quarter on a pro forma basis. This resulted in adjusted cash flow, which we view as our bottom-line earnings, of $369 million or $0.61 per share. This is an adjusted cash flow margin of 80%, highlighting the strong financial leverage in our business model.

Looking at our balance sheet on slide 14, we ended June with cash and marketable securities of $2.8 billion, driven mainly by adjusted cash flow I just described and the IPO proceeds of $1.9 billion. Other cash movements, including royalty acquisitions, debt refinancing proceeds, and other distributions, largely balanced out.

We finished the quarter with $5.9 billion of total debt that is investment-grade rated, equating to net debt of $3.2 billion. Our current interest expense is approximately 1.8%. Taken together, with leverage of 1.9x adjusted EBITDA on a net basis and 3.5x adjusted EBITDA on a gross basis, we are very well positioned to execute on our business plan.

On slide 15, my final slide, we're pleased to provide you with full-year 2020 guidance. We expect adjusted cash receipts to be in the range of $1.72 billion to $1.76 billion and our operating costs are expected to be approximately 10% of adjusted cash receipts. Importantly, this guidance is based on our portfolio as of today and does not take into account any future transactions announced after the date of this release.

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

Pablo Legorreta - Royalty Pharma plc - CEO

Thanks, Terry. I want to bring this all together in the context of our strategic plan and how we are delivering against it. As a reminder, we have three main business streams through which we plan to sustain growth, further diversify our revenues, and continuously extend the duration of our portfolio.

First, we will continue to seek to capture a leading share of available royalty acquisitions for approved products, which is our traditional area of expertise. Second, we will target select late-stage clinical development opportunities, both in terms of royalty deals and of direct R&D funding. Third, we will participate in M&A by acquiring nonstrategic royalties to help acquirers fund deals or by partnering with these companies or even, in very select instances, acquiring companies outright in order to gain new royalties.

This slide summarizes how we are executing against our strategy. When we think about the magnitude of growth, we are delivering double-digit momentum, and I am particularly pleased with the 24% growth in adjusted cash receipts and 47% growth in adjusted cash flow. We are also successfully diversifying our growth with the royalty acquisitions Marshall described. And of course, we are confident that we can continue to grow the portfolio and add additional products.

As of today, we have royalties on more than 45 products and only one royalty, namely cystic fibrosis, is greater than 20% of our total royalty receipts. Given our simple business model, this diversification is true on both our top and bottom lines, which we believe is quite unique. Lastly, we have maintained a weighted average life of our portfolio of around 15 years, well above the industry average. With the help of FDA approvals of Tazverik in follicular lymphoma, Nurtec in migraine, and Trodelvy in triple negative breast cancer as well as our new royalty acquisitions.

On my final slide, this is what we plan to deliver as a result of successfully executing our strategy and deploying an estimated $7 billion in capital from 2020 through 2025. Our long-term goal is to grow adjusted cash receipts at a compound rate of between 6% and 9%, with around half coming from our existing business and half from new royalty transactions.

We target returns in excess of our cost of capital over the period while maintaining a weighted average duration for our portfolio at more than 10 years. We expect to pay around 25% of adjusted cash flow in dividends, beginning with an initial quarterly dividend of $0.15, and to maintain our investment grade credit rating. Based on this outlook and our unique position at the heart of funding the Golden Age of life sciences innovation, I am as excited about the future of Royalty Pharma today as I was when I founded the business back in 1996.

With that, I would like to open the call to Q&A. Back to you, George.

George Grofik - Royalty Pharma plc - SVP, Head of IR and Communications

Thanks, Pablo, and we will now open up the call to your questions. Operator, could you please take the first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Geoff Meacham, Bank of America.

Geoff Meacham - BofA Merrill Lynch - Analyst

Hey, guys. Thanks for the question and congrats on the successful IPO. I just had a couple questions. One for Pablo, as you look at the portfolio, how much does the changing policy environment inform your assumptions of growth or IRR? Just curious if you had an implicit discount for future deals.

And then for Terry or Marshall, for future deals, I know it is IRR-driven, but is there a separate consideration of therapeutic area? Obviously, some categories are subject to faster disruption or competition. It seems like orphan assets fit your model well, but I wanted to get your thoughts on that. Thanks, guys.

Pablo Legorreta - Royalty Pharma plc - CEO

So with respect to your first question, I think if you look at the transactions that we have been able to close this year, the return expectations that we have on all of the transactions are very much in line and in some cases even exceeding slightly the return expectations that we have for approved and unapproved products.

And let me remind you what they are. We expect returns for approved products in the high-single digit, low-double-digit returns. And when you look at some of the recent transactions, they are actually north of 10%. So we believe those returns to be very attractive because also, you have to remember that those are unlevered returns.

For unapproved investments, they are well in excess of that, actually in the mid to high teens. And again, when you look at the transactions, particularly the recent transaction that we just announced with Biohaven where we are funding zavegepant, when you combine the different aspects of the $250 million zavegepant clinical funding agreement, you will see that we start with a sort of low-double-digit return looking at the multiple of fixed payments. And the return then goes to the mid to high teens when you count the royalties that we have negotiated both on zavegepant and Nurtec, which we of course are very excited about because of its strong launch.

So we are actually very pleased with what we are seeing. And I think the last thing I will say is that one of the things that is obviously driving this very attractive execution is the very strong tailwinds that we have, the very significant capital needs in the biotech industry, and other things that we've discussed in the past.

So let me turn it over now to Marshall for him to provide additional perspectives.

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

Yes, thanks, Pablo, and good morning, Geoff. So Geoff, to your question on therapeutic areas and product fit for Royalty Pharma, our focus and the focus of our strategy has always been to find the most innovative impactful drugs for patients in each therapeutic area. And it's not necessarily that there are certain therapeutic areas where we won't invest or fit better or don't fit for us. We approach everything on a product-by-product basis.

Now certainly there are areas where we feel that technology cycles, as you alluded to, might be too short or that there are competitors coming along where we won't choose to participate. But really, we are approaching it on a product-by-product basis. We have done deals in the orphan -- on the orphan side, as you mentioned, but we feel like there is going to be exciting opportunities going forward that really fit our model, that have durable products with durable competitive advantages across therapeutic areas.

Geoff Meacham - BofA Merrill Lynch - Analyst

Okay, thanks, guys.

Operator

Chris Schott, JPMorgan.

Chris Schott - JPMorgan - Analyst

Great. Thanks so much for the questions. The first one is just when I look at the Biohaven deal, it seems like we are seeing deal terms that are evolving from straight royalties that we saw historically to something that is kind of maybe more complex and creative structures. Is that something unique to some of the recent transactions we are seeing or is this an evolution of the broader Royalty Pharma model?

And then my second question was on leverage. Is there a leverage ceiling we should think about for the Company? And does the success of the stock on the IPO impact how you think about potential using equity to finance transactions? Thanks so much.

Pablo Legorreta - Royalty Pharma plc - CEO

Thanks, Chris. I will take the first part of your question. So in terms of deal structure, as you probably heard us during the roadshow for our IPO, one of the real unique things about Royalty Pharma and something that has driven very significant growth over decades has been our ability to be very creative in structuring transactions.

The recent structure with Biohaven has different components. And I believe that at the end of the day, what really matters here for us is to invest in really exciting attractive products. That is really the beginning of a good investment, marketed by strong companies. And then we solve the needs of our partners and ours through creative structuring.

And that is exactly what happened here. There was a need for capital to actually fund the launch of Nurtec and we put in place something that we feel was very attractive and unique with this preferred commercial launch funding stock, $200 million, where we are going to be investing $200 million over the next four years to support the very strong launch of Nurtec. And then we will receive payments over the next six years.

But if you look at, again, the return expectations there, they are fairly attractive at around 12% unlevered. And then the other part of the transaction obviously has royalties. But then if you look at a transaction like the PPC transaction, it is much more plain vanilla with us just purchasing a meaningful portion of the royalty that PPC had on risdiplam. So I think at the end, being creative is really critical so that we can address the needs of our partners and continue to make very attractive investments in attractive products.

And I will turn it over to Terry now for a response on your question about leverage.

Terry Coyne - Royalty Pharma plc - EVP and CFO

Yes, hi, Chris. So in terms of leverage, for us, we have been very clear that it's a priority to maintain our investment-grade rating. So we finished the quarter at 3.5x total debt to EBITDA. And I think the way to think about the sort of leverage ceiling is that we can go a little bit above 4x from time to time when we need to -- when we find a very attractive royalty asset, but we need to have a clear path to delevering from there. So I think that around 4x total debt to EBITDA is the way to think about the ceiling in order to maintain the investment-grade rating.

But from time to time, like in 2014, we raised debt to go and buy the cystic fibrosis royalties, which were really very important for us at the time. And we had a clear path to delevering from there. So we did take it a little bit above 4x at that point. And we have a long history of that policy with the rating agencies so they understand it well.

In terms of using equity for acquisitions, I think the way to think about it is sort of a waterfall. So the business generates a lot of cash and so we are always going to use cash on our balance sheet first for new investments. And then after that, I think the next thing we will look at is adding debt while maintaining that investment-grade rating.

And then the last component would be additional equity. Because we do think that the cost of debt is still much lower than the cost of equity. So that is kind of the way that we think about it, the way we actually managed the business for the last 15 years.

Chris Schott - JPMorgan - Analyst

Great, very helpful. Thank you.

Operator

Steve Scala, Cowen.

Steve Scala - Cowen and Company - Analyst

Thank you and congratulations on a very solid first quarter out of the gate. We thought the risdiplam deal was a great deal for Royalty Pharma. But then Roche priced risdiplam well below competitors, which influences sales, which influences royalties. And we don't necessarily believe demand will be higher, but it is more due to Roche's view of social responsibility. So, was the price in line with your expectations? And if not, then how does this change your internal forecast?

Pablo Legorreta - Royalty Pharma plc - CEO

Sure. Thank you. Marshall, can you take that question?

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

Yes, absolutely. Thanks, Pablo, and good morning, Steve. So we were obviously very happy to see the approval of Evrysdi come through on Friday. And with respect to specifically your question on price, well, we are not going to get into our specific assumptions on any given deal.

Whenever we look at any transaction or any royalty, especially one like this that is preapproval where we don't know the price, we look at a variety of scenarios across pricing and volume and many, many different -- many different variables and have to be comfortable with the investment across all of those. So I would say that having the approval and now seeing it priced, we remain very excited about both the potential of Evrysdi for patients and then also about this product for Royalty Pharma.

Steve Scala - Cowen and Company - Analyst

Thank you.

Operator

Gregg Gilbert, Truist Securities.

Gregg Gilbert - Truist Securities - Analyst

Thanks. Good morning, team. It's Gregg Gilbert from Truist. I will ask two questions. First, on capital deployment, do you see the potential to put more than $1.5 billion per year to work? I realize that's just an average and that it will be lumpy, but given your momentum, the tailwinds in the industry, your new capital structure, curious if you are tempted to potentially do more. And that's partially a comment on just what you see coming your way these days.

My second question is heading into election period, I'm sure your partners will individually be scrutinized up and down about their relative exposures to the US in different parts of the system. I was wondering if you had a best estimate you could share with us on your exposure to kind of US versus rest of world. And then within the US, how much is government pay versus private pay? And if not, just frame for us how you think about that. Thanks.

Pablo Legorreta - Royalty Pharma plc - CEO

Thanks for the question. Terry, can you please answer the question?

Terry Coyne - Royalty Pharma plc - EVP and CFO

Yes, sure. So I think the way in terms of capital deployment, Gregg, one point. We put out this guidance of investing $7 billion, at least $7 billion over the next five years. That is a number that we feel very comfortable with. We are off to a really strong start in 2020. We feel very good about the pipeline and the tailwinds in the industry.

I think if the opportunities come around and the right opportunities, the quality assets that sort of fit the types of things we are looking to invest in, then I think we absolutely would invest more than that. But we feel very comfortable with the guidance that we have given of investing $7 billion over five years.

And it is important, though, to really look at the way we look at investments and capital deployment is over a multiyear period. So while 2020 we've invested or we have announced $1.7 billion of acquisitions, I think we really do look at it over multiyears.

And then your other question about exposure to the US, so we don't always have perfect visibility there, but our best guess is that the US is between 60% and 65% of our total royalties. And then within the US, we -- again, we don't always have perfect visibility into different levels of payers. I would point out that our largest Medicare Part D or our largest product that would fall under Medicare Part D would be Tysabri, but we don't know what the sort of breakdown is of Tysabri in terms of Part D. So I think that for those types of questions, it's probably best to just refer to the marketers.

Operator

David Risinger, Morgan Stanley.

David Risinger - Morgan Stanley - Analyst

Great, thank you. Good morning, Pablo, and team and congrats on the recent deal announcements as well. So I have two questions. So I was hoping that you could just discuss the current biotech pricing environment and Royalty Pharma's ability to uncover underappreciated investment opportunities.

And second, obviously the (technical difficulty) deal was (technical difficulty). Do you see (technical difficulty)? Are there lots of opportunities for such deals? Any sort of color on high return potential deals would be helpful. Thank you.

Pablo Legorreta - Royalty Pharma plc - CEO

Sure, Marshall, can you take the question? And we were having trouble hearing all of it, David. I don't know if maybe Marshall did catch all of the question.

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

David, I didn't get the first question. You broke up. And then maybe the second question, if you could summarize it for us. I think we actually had trouble hearing it, unfortunately.

David Risinger - Morgan Stanley - Analyst

Okay. My apologies. So, with respect to the current biotech pricing environment, generally speaking, prices for assets are high. Could you just discuss Royalty Pharma's ability to uncover underappreciated opportunities? And then second, with respect to creative deals like zavegepant, Nurtec, could you characterize opportunities ahead to generate high returns with unique transactions like that? Thank you.

Pablo Legorreta - Royalty Pharma plc - CEO

Marshall.

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

Absolutely. So Dave, on your first question on the environment out there, I'll just make a couple of points. Like I said in the script, we are very optimistic about the future and where our pipeline is and all the potential opportunities we see going forward.

This year has been a very busy year for us, as we outlined doing both the traditional royalty transactions as well as the Biohaven deals in terms of both traditional royalties and then things that are a little bit more creative. So, we definitely think that even in this environment that we are finding exciting opportunities for us.

And then the second part of your question on maybe -- the second point I would make, excuse me, is it has obviously been a very strong biotech and biopharma environment over the past several years. And even over that longer period of time, Royalty Pharma has been very successful finding exciting attractive opportunities. So I think across those types of environments, I think we have been successful in continuing to expand our portfolio.

The second part of your question in terms of -- I think relates to creative deals like we announced with Biohaven last week. I would say absolutely. We think that solving problems for our partners, creating win-win solutions to support either pipeline development or commercialization in creative ways and structuring in creative ways is one of our kind of core to our strategy and something that we think a lot about, always trying to be creative and think differently. And we believe strongly if we do that that there are going to be many opportunities to do that in the future. So hopefully that answers your question.

Pablo Legorreta - Royalty Pharma plc - CEO

David, maybe I will just provide one additional perspective here, which is that our business model is quite different than -- while you might be referring to a very competitive environment for M&A, given the scarcity of attractive assets, late-stage and approved products in biotech, and also a very competitive environment in licensing products from biotechs, we are coming from a completely different angle and perspective.

Because as you know, what we end up doing in many cases with biotechs, for example, is financing the late-stage development of their products. In those cases, we generally can come in with terms that are very attractive for these companies, a lot less dilutive than equity or doing a big deal with a big pharma, which would take a huge a significant portion of the economics in a product.

So for us, honestly, it is different and I think it really speaks to the strength of our model. And how even in an environment where maybe M&A is expensive and licensing is very competitive, we can still do extremely well at deploying capital.

David Risinger - Morgan Stanley - Analyst

Great, thank you.

Operator

Navin Jacob, UBS.

Navin Jacob - UBS - Analyst

Hi, yes, just following up on the question on leverage. I understand your commentary on going over 4x, but that's on a gross level. On a net level, you are actually under 2x levered. Wondering if there is a minimum threshold that you go to. And based on that net leverage number, is there also a ceiling that you won't go above? I just wanted to understand sort of that run rate level that we should be thinking about.

And then secondly, understanding that you'd be loath to provide any details on ongoing discussions for future deals, but if there is any way of giving color around how many deals we can expect over the next 6 to 12 months, that would be very helpful as far as how many you have sort of in the pipeline that is brewing. That kind of color will be helpful.

Pablo Legorreta - Royalty Pharma plc - CEO

Sure. Terry, can you answer both questions, please?

Terry Coyne - Royalty Pharma plc - EVP and CFO

Sure. So in terms of the net leverage, you are right that it's obviously much lower than the gross leverage. We and the rating agencies, though, typically look at it on a gross basis. Because the net number, given how we deploy capital over time, that number is going to be much more volatile.

We obviously always want to have net leverage that's substantially lower than our gross leverage, but we don't have a specific target there. But we do always want to keep cash on the balance sheet so we can go and pursue investment opportunities. But yes, I think that's the way we've always looked at it and the way the rating agencies always looked at it is on a gross basis, given the volatility of the net number as we deploy capital over time.

And then your second question on the pipeline, it's very challenging for us, as you can imagine, for competitive reasons to get into specifics on the pipeline. We are very happy - we feel like the discussions have really only accelerated through this difficult environment. I think a lot more companies continue to think about royalties as a way to finance themselves, whether it be selling passive royalties that they already own or using -- or creating synthetic royalties on their pipeline. So we feel really good about the discussions we're having, but it's obviously for us it's quite unpredictable when we're actually going to transact on things and so we can't really provide much more specifics there, unfortunately.

Umer Raffat - Evercore ISI - Analyst

Thanks so much for taking my questions. Look, so there's some very obvious strengths of the business model. There's the economics on breakthrough drugs and I feel like a lot of that is very obvious and clear.

But maybe focusing a little more specifically onto Royalty Pharma specific issues. First, I know there's debate on the possibility of a possible big LOE risk post 2027, which is from the cystic fibrosis. And my question was if you can give us specific color on why you think the royalties are not tied to TAMs and instead tied to the components of Trikafta? And I ask because SEC asked very specifically on whether the agreement was tagged to the duration of TAMs or not? And Vertex responded very definitively saying yes, it was tagged to TAMs. So that's first.

And secondly, maybe this one is for Terry. Terry, I know the nature of GAAP revenues and the nature of some of the GAAP expenses on expected cash flows makes it not very reflective of current period performance. But that doesn't change the fact that the income statement that Royalty Pharma is reporting is probably one of the most novel (technical difficulty) business. And my question is when you envision a path to get some sort of alignment with SEC on being able to report a non-GAAP EPS number instead of a cash EPS number?

Pablo Legorreta - Royalty Pharma plc - CEO

Go ahead, Terry. Why don't you take the two questions?

Terry Coyne - Royalty Pharma plc - EVP and CFO

Yes, so Umer, unfortunately, I don't know if it was my line, but I didn't hear your second question. Could you repeat it, please?

Umer Raffat - Evercore ISI - Analyst

Oh, no problem. My question basically was Terry, the way GAAP revenues are accounted for as well as the GAAP expected cash flows being in the OpEx line, those two things are not exactly reflective of current period performance. But that still doesn't change the fact that the income statement constructed method for Royalty Pharma is the most novel there is in all of large caps, including the way deals are accounted for in the routine course of business, etc.

So my question is could you envision a path, Terry, whereby Royalty Pharma could get some sort of alignment with SEC which enables it to report a non-GAAP EPS number instead of a cash EPS number?

Terry Coyne - Royalty Pharma plc - EVP and CFO

Okay, sure. So on your first question on -- you mentioned an LOE for the Vertex product. So I think we have been very clear that the royalties are not tied to patents and that is based on the contracts. So, I don't think we can really say anything other than that. It's simply not tied to patents. So as long as there are sales of products that are royalty-bearing, then we will get royalties. So in the case of Trikafta, we expect to get full royalties through 2037.

On your second question on our financials, I think that what we are focused on is these cash measures because we think that they are most reflective of the performance of the business. And that is what we have pointed to as what management looks at and we are really happy with how we are performing on those measures. We did show in the slide deck a cash per share metric as well and we think that that is what we are going to continue to focus on.

As far as discussions with the SEC, I think the GAAP income statement is the GAAP income statement and we don't anticipate that that is going to change. And we will continue to provide these adjusted cash-based measures going forward as well.

Umer Raffat - Evercore ISI - Analyst

Thank you.

Operator

(Operator Instructions) Terence Flynn, Goldman Sachs.

Terence Flynn - Goldman Sachs - Analyst

Hi, good morning. Congrats on the IPO as well and thanks for taking the questions. I guess two from me. Obviously, omecamtiv is an important upcoming Phase 3 readout; you guys get royalties there. Just wondering if you can speak at a high level about what drew you to this asset and how you see this market evolving and where this would fit.

And the second is on your equity stakes. Obviously, that is part of the creative structure that you have talked about. How do you think about selling those equity stakes? Is this all returns-based or how do you think about ultimately divesting those stakes? Thank you.

Pablo Legorreta - Royalty Pharma plc - CEO

Thank you for the question. Marshall, can you take the first question, and Terry, you can answer the question on equity stakes.

Marshall Urist - Royalty Pharma plc - SVP, Research and Investments

Good morning, Terence. Thanks for the question on omecamtiv. So just speaking at a very high level on that one, we are always looking for exciting products with novel science in markets where there is a lot of unmet patient need. And I think omecamtiv, as I'm sure you know, is extremely exciting from a science perspective. Nothing in heart failure as directly acting on the cardiac muscle has been developed to date.

And so we think that is exciting and interesting and could really be a complement and differentiated to what is available in heart failure today. And obviously, heart failure is an area that does have a lot of unmet need. There haven't been a lot of truly new classes of drugs that are there. And also a very large market and something that can support blockbuster or multi-blockbuster status for a drug. So it did check all of those boxes for us, and we are looking forward to the results this fall.

Terry Coyne - Royalty Pharma plc - EVP and CFO

And on the question on our equity position, Terence, the way we look at it is we are -- similar to how we invest in royalties, we are focused on what we view as intrinsic value. And so if an equity position was approaching what we view as intrinsic value or exceeded that, then we would certainly think about selling those positions at that time.

Operator

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Pablo Legorreta for closing remarks.

Pablo Legorreta - Royalty Pharma plc - CEO

Sure, thank you, operator. Thank you to everyone on the call for your interest in Royalty Pharma. My team and I are tremendously excited about our future as a public company and we look forward to sharing our progress with you as we build our unique leadership role in funding the life sciences innovation and ecosystem. If you have any follow-up questions, please feel free to reach out to George. With that, we will conclude the call today. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may now disconnect.