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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Second 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 Second 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 GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website.

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, after which Marshall will provide a portfolio update and Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session. Chris Hite, our Vice Chairman, will also join the Q&A session.

And 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 another quarter of strong execution on our strategy as a leading funder of innovation in life sciences.

Slide 6 summarizes our financial and portfolio achievements in the second quarter which again underscores the strong momentum of our business. First, we delivered 10% growth in Adjusted Cash Receipts, our top line, maintaining our impressive track record of double-digit growth.

Second, we have announced transactions of $2.5 billion year-to-date, including the Trelegy royalty acquisition, which we completed just after the quarter end. This reflects the strong growth in demand for our innovative royalty-based funding solutions.

Third, we saw positive progress across our portfolio. Pfizer's proposed acquisition of Biohaven will accelerate value creation to Royal Pharma, and Marshall will walk you through this shortly. In addition, we have -- we were pleased to see the FDA acceptance of the regulatory filings of PT027 in asthma as well as intranasal zavegepant in migraine.

These important milestones potentially bring these important therapies closer to patients.

Lastly, we are raising our full-year guidance for Adjusted Cash Receipts based on the strong underlying performance of our existing portfolio and the addition of the Trelegy royalties, and we now expect 7% to 10% top-line growth. This growth reflects a roughly 3% to 4% unfavorable impact from foreign exchange that we expect to face this year, which Terry will talk to you more about in a minute. I would also remind you that our guidance excludes the impact of any investments that we make over the remainder of 2022.

On Slide 7, you can see our financials in a little more detail. In the second quarter, we delivered 10% growth in our top line. We estimate that foreign exchange had a negative 2% to 3% impact in the quarter. The strong double-digit momentum positions us to achieve another year of impressive top-line performance in 2022.

Below our top line, I am also pleased to report that we grew our Adjusted EBITDA by 10%. Adjusted EBITDA is an important non-GAAP measure for us, which is arrived at by deducting operating and professional expenses from our top line. Lastly, our Adjusted Cash Flow, our bottom line, grew by 12%.

So another quarter of strong double-digit growth across all our key non-GAAP metrics, even with clear foreign exchange headwinds that have been felt across the industry.

Slide 8 shows our impressive track record of strong top-line growth since our IPO in June of 2020. This track record reflects the power of our business model and our ability to execute successfully against our strategy. As many of you heard at our May 17 Investor Day, by consistently innovating funding solutions and replenishing our portfolio, we're able to drive compounding growth and absorb losses of exclusivity in a way that is not possible for most biopharma companies.

An important element of this shown on Slide 9 is our unique ability to identify and add blockbuster therapies to our portfolio. Trelegy, of course, is the most recent example of this unique attribute of our model. Blockbusters bring a number of key advantages to Royalty Pharma. They typically receive heightened market focus and investment. They enhance our scale and diversification of our portfolio with some of the most transformative therapies in the industry.

They offer net leverage capacity and cash flows that we can deploy to further diversify our portfolio. Lastly, they provide a strong foundation to continue to build our portfolio across different stages of development with different risk profiles.

Today, around 1/4 of our revenue streams come from blockbuster products. In fact, 13 products in our portfolio have end market sales of more than $1 billion. And of these, four have end market sales greater than $3 billion. This means our portfolio has around 1.6x the exposure to blockbusters compared to the top 15 biopharma companies.

Furthermore, we continue to add to this list of transformative therapies. Since 2020, we have added 10 current and future potential blockbusters to our portfolio based on consensus sales. By constantly identifying and adding royalties on marquee products to our portfolio, we're able to drive continued portfolio replenishment, diversify the business, reduce risk and ultimately grow our top line and generate shareholder value.

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. Let's move to Slide 11. Trelegy is a medicine we had been tracking for some time. It's the leading triple combination therapy for chronic obstructive pulmonary disease and asthma and is marketed by GSK, a company with a leading presence in respiratory disease. Our interest in Trelegy reflected its first-in-category status, strong clinical data, high unmet patient need and impressive growth since launch.

Last month, we were, therefore, delighted to be able to execute a highly complex transaction to acquire royalties on Trelegy. This was no simple task as the acquisition involved multiple parties, Innoviva, Theravance and GSK. Royalty Pharma brought all the parties together, creating a win-win solution for everyone based on our deep industry relationships and ability to creatively structure the transaction.

In this deal, GSK previously paid upward tiering royalties of between 6.5% to 10% on global Trelegy sales, which were split between Theravance and Innoviva. Royalty Pharma agreed to acquire the entire royalty stream for a combined total of $1.31 billion upfront and up to $300 million in potential sales milestones.

For Royalty Pharma, this transaction not only adds another blockbuster to our portfolio, as Pablo noted, but we expect it to significantly enhance our long-term growth by adding at least $200 million to our Adjusted Cash Receipts in 2025 and deliver returns consistent with our target returns for approved therapies in the high single to low double-digit range.

Slide 12 expands on why we are so excited by the market opportunity for Trelegy and the growth opportunities ahead. Trelegy was the first single-device triple combination inhaled therapy to be approved by the FDA for the maintenance treatment of both COPD and asthma. Both the respiratory diseases with a very high incidence in poorly controlled patients. The initial indication, compelling efficacy profile and easy-to-use single device helped establish Trelegy as a blockbuster and to grow the penetration of triple therapy.

In the last 12 months, GSK reported global Trelegy sales of approximately $2 billion, representing year-over-year growth of 50%. Looking forward, we believe there is still very significant scope for sales growth based on increased penetration of triple therapies in the U.S. and expansion in international markets. We note the consensus sell-side forecasts project that Trelegy sales will exceed $3.5 billion by 2025. This would represent an approximate doubling of sales compared with the $1.7 billion reported in 2021.

On Slide 13, I want to highlight our acquisition of royalties on Gavreto. This is a precision oncology medicine, which targets RET mutations and is marketed in certain territories outside the U.S. and Greater China by Roche. In Europe, Gavreto is approved in RET-altered non-small cell lung cancer and a regulatory decision in thyroid cancer is expected by year-end.

Last month, we agreed to acquire Blueprint Medicine's royalty on Gavreto in ex-U.S. markets, excluding Greater China, for $175 million upfront and up to $165 million in sales-based milestones. In return, we will be entitled to receive an attractive royalty rate in the high teens to mid-20s percent on sales in those markets. Although Gavreto is not expected to be a blockbuster, with consensus sales approaching $400 million in Roche territories by 2030, this royalty has an exceptionally long duration, potentially extending as far as 2040.

Consequently, over the lifetime of the royalty stream, we expect Gavreto to be an important contributor to Royalty Pharma.

Moving to Slide 14. Pfizer's proposed acquisition of Biohaven is expected to significantly accelerate the returns on our various investments in Biohaven. We have had a long-standing and highly successful partnership with Biohaven in the development and launch of their CGRP migraine therapies. When we acquire royalties and equity from biotech partners, we do so based on our assessment of their organic prospects.

If the company is subsequently acquired, however, it has the potential to accelerate returns and this looks to be the case with Biohaven. Following the closing of the Pfizer acquisition, which is currently expected in early 2023, we expect the cash returns to Royalty Pharma to total as much as $1.4 billion, which also assumes an accelerated milestone payment on zavegepant approval. This amounts to a 1.8x potential cash return on our investment of $760 million with further upside from the 2% to 3% blended royalty on Nurtec and zavegepant sales through the mid-2030s.

With the addition of Pfizer's marketing resources, it's reasonable to assume a greater likelihood of achieving the full commercial potential of Biohaven's migraine portfolio, which Pfizer believes could exceed $6 billion in peak sales.

Let's move now to Slide 15 and the expected clinical and regulatory events for our portfolio over the next 12 to 18 months. In terms of clinical news, over the balance of 2022, we anticipate Phase III readouts for up to 4 potentially transformative therapies, including results from Cabometyx in combination with immunotherapy in a number of different settings. Pfizer and Astellas' XTANDI in non-metastatic prostate cancer; Roche's gantenerumab in Alzheimer's; and GSK's otilimab in rheumatoid arthritis.

In 2023, we anticipate readouts from a few important Phase III programs, including Biohaven's oral tovegepant in migraine and TREMFYA in IBD. On the regulatory front, over the remainder of 2022, we would highlight the expected European approval decision on Gavreto in thyroid cancer and the FDA decision on PT027 in asthma.

In 2023, we anticipate FDA approval decisions on intranasal zavegepant in migraine and on omecamtiv in heart failure. As well as 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.

Finally, I'd like to briefly touch on the impact of drug pricing reform in our portfolio. While nothing is final and there could still be important changes and many unknowns remain with respect to the implementation, from what we have seen in the proposed legislation, our initial view is that we would anticipate only a very small headwind to our business without considering any increase in volume from potentially improved patient access.

With that, I'll hand it over to Terry.

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

Thanks, Marshall. Let's move to Slide 17. Total royalty receipts grew 8% in the second quarter versus the year ago period. Growth drivers in the quarter included the cystic fibrosis franchise, Xtandi, which benefited from a prior period adjustment. And the Tremfya royalty, which we acquired in July 2021.

We also saw significant growth contributions from Promacta, from our Biohaven partnership, and though not specifically shown on this slide, from Cabometyx, Evrysdi and Orladeyo. These positive factors more than offset the loss of contribution from our legacy HIV franchise as well as year-over-year declines from IMBRUVICA related to a slower recovery in the CLO market and competitive pressure.

Slide 18 shows how our royalty receipts translated to strong Adjusted Cash Flow in the second quarter. As you're aware, adjusted cash receipt is a key non-GAAP metric for us, which we arrive at after deducting noncontrolling interests. This amounted to $524 million in the quarter, growth of 10% compared with last year's second quarter. As mentioned earlier, we estimate this growth was achieved despite a 2% to 3% headwind from FX in the quarter.

As we move down the column, operating and professional costs were approximately 8% of Adjusted Cash Receipts. As a consequence, we reported 10% growth in adjusted EBITDA in the quarter, consistent with the growth in our top line. As Pablo noted, adjusted EBITDA is an important non-GAAP financial measure for us and one of the 3 key non-GAAP metrics by which we measure our performance.

When we think of the cash generated by the business to then be redeployed into new value-enhancing royalties, we look to adjusted EBITDA less interest paid. We received modest net interest in the quarter, reflecting the semiannual timing of interest payments on our $7.3 billion of unsecured notes, which are paid in the first and third quarters.

After de minimis payments for ongoing development stage funding and other items, we generated Adjusted Cash Flow, our bottom line, of $482 million or $0.79 per share for the second quarter. This resulted in an Adjusted Cash Flow margin of 92%, which once again highlights the efficiency of our business model.

Let's move now to Slide 19 and our financial position. We continue to maintain significant financial firepower. We deployed $439 million of capital on royalty acquisitions in the first half of the year as well as $238 million on dividends and distributions. This was more than offset by our strong cash flow generation so that our cash and marketable securities increased to $2.4 billion at the end of June.

After the quarter end, as you heard from Marshall, we acquired the Trelegy royalty for a net upfront payment of just over $1.3 billion in cash. Adjusting for this transaction, our pro forma cash and marketable securities position would have been $1.1 billion. On the same pro forma basis, our leverage stood at 2.9x net debt to EBITDA and 3.3x total debt to EBITDA.

As a reminder, the fixed rate average coupon on our debt is slightly above 2%, which compares with our target returns on royalty acquisitions in the high single-digit to teens percentage range. While interest rates have certainly moved substantially higher over the last 6 months, the majority of our debt matures in 2030 or beyond. And our flexible business model and strong cash generation put us in an excellent position to execute on our business plan and create value for shareholders.

On Slide 20, we are raising our full year 2022 financial guidance. We now expect Adjusted Cash Receipts to be in the range of $2.275 billion to $2.35 billion, an increase of between 7% to 10%, over the $2.1 billion we delivered in 2021, highlighting the momentum in our business.

Looking specifically to Q3, I want to highlight a few factors to help with your modeling. We received our final substantial payment for the DPP-4 royalty in the second quarter. Lastly, the other product line will experience a high base of comparison in the third quarter as we recorded a $37 million net milestone payment on SOLIQUA last year. 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 now expect payments for operating and professional costs to be approximately 8% to 9% of Adjusted Cash Receipts in 2022. Our lower operating cost guidance reflects one of the unique aspects of our business model, which is a relatively low fixed cost base. We think this is especially impressive in light of today's highly inflationary environment.

Interest paid for full year 2022 is still expected to be around $170 million. Finally, we're going through our purchase price allocation exercise for the recent deal with Theravance. Our current expectation is the $25 million upfront R&D payment related to the development of ampreloxetine will be expensed in the third quarter on both our GAAP and non-GAAP P&L.

On Slide 21, I wanted to drill down further on our Adjusted Cash Receipts guidance. This graphic is illustrative, but provides the various pushes and pulls which are behind our raised top line outlook for 2022. The primary driver of growth this year is expected -- is the expected strong underlying performance of our diversified royalty portfolio, particularly the CF franchise, Tremfya and Evrysdi, which will be enhanced by the addition of the Trelegy royalties in the third and fourth quarters.

The expirations of our HIV and DPP4 royalty stream as well as Imbruvica underperformance are expected to partially offset the strong growth in our portfolio. In addition, the broad strength of the U.S. dollar is expected to negatively impact growth by minus 3% to minus 4% for the year or between $65 million and $85 million, assuming current FX rates for the remainder of the year.

We are pleased to be raising guidance with our top line now expected to grow 7% to 10% in a year that our business faces LOE pressure from 2 prior top royalty streams as well as significant FX headwinds. Not many companies in our industry have the diversified portfolio or growth characteristics to be able to achieve this, once again, highlighting the resilience of our business model.

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. So another strong quarter, and we're on track to deliver excellent results in 2022.

Before I close, I wanted to spend a moment highlighting the strategic plan, which we detailed at our Investor Day. By executing against this clear plan, we're confident we will deliver rapid, consistent and value-enhancing growth. Our strategy is based on five pillars. First, capturing a leading share of third-party royalty acquisitions for approved products and select late-stage development opportunities.

Second, acquiring newly-created royalties, what we term synthetic royalties on both approved and development-stage products, typically to help biotech partners fund R&D and commercial launches. Third, we will provide additional funding in the form of development and launch capital, which allows us to tailor individualized solutions for partners in return for royalty-like payment streams.

Cutting across each of these pillars is our fourth pillar, M&A, where we have a multifaceted strategy which enables us to acquire royalties through facilitating corporate transactions. Lastly, since our IPO, we added a fifth pillar, which is to identify opportunities in synergistic adjacencies, which leverage our team's capabilities.

My final slide shows that we're delivering on all aspects of our strategic plan. In 2021, as a result of the MorphoSys M&A transaction and other existing and synthetic royalty acquisitions, we deployed $3 billion of capital across all five strategic pillars. In 2022 year-to-date, we have deployed $2.5 billion across four of the five pillars, including the recent Trelegy deal.

Although it has only been two months since our Investor Day, the strong execution of our strategy puts us in a great position as we move towards achieving our five-year capital deployment target of $10 billion to $12 billion, and to deliver the attractive compounding growth profile that we described.

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 your questions. Operator, please take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Shibutani with Goldman Sachs.

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

I appreciate the updated comments and congratulations on continued progress. Two quick questions. One, following the investment that you made with the Trelegy, I believe that is one of the more sizable, if not the second largest since the IPO, can you comment about the impact on your capacity to do further deals during this calendar year?

And then second, Marshall, appreciate your proactive mention of comments about U.S. drug pricing reform. Can you help us think about, based upon the current proposals, how you think about potential implications on how you're assessing opportunities, in particular, the industry seems focused on differences in the timelines of the durability and exposure of small molecules versus biologics. However that may be defined, if you could share any further comments on how that changes your investment calculus.

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

Sure. Thanks for the questions. Good to hear you. Maybe just briefly before I pass it on to Marshall. But as you know, I outlined the pillars of our strategy. And I think there's no question that the business is driving, and I think we'll continue to drive very significant growth going forward, is the synthetic royalty opportunity in front of us, which is very, very significant.

So the biotech industry needs very significant amounts of capital to continue to fund innovation. And we are the partner of choice of these companies, and have really figured out how to work with them in very creative ways. For example, with our new launch capital and development capital structures that are ideal for this company.

So that will give us a core of transactions, maybe half a dozen, maybe more, maybe less per year, that should result in a very consistent capital deployment. And in addition to that, there are the largest transactions that take time, a lot of skill, a lot of skill because one of the things that may be people don't focus on is how complex it can be to actually bring together diverse parties like Innoviva, Theravance and Glaxo with a common purpose and really align all of their different motivations and goals, very difficult.

But we have been patient and figured out how to do this and that obviously resulted in a fairly attractive large transaction for a marquee product marketed by the strongest company in that space. So very excited about that. But those kind of deals will give us additional opportunities to deploy significant capital that to get like M&A. That's why we've raised our guidance for the next years.

This industry is really in its sort of golden age, and we're playing this very important role here. But Marshall, I'll pass it on to you.

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

Sure. Thanks, Pablo. So absolutely. So I think it's important to take a step back and think about the potential drug price reform in the legislation in two pieces. I mean the first is like as we commented in the script is that when you look at our current portfolio, we don't see a significant impact. We just don't have a lot of Medicare B and D exposure right now. And I think the power of that is that now we can turn immediately towards beginning to think about that as a frame for our new investments immediately. And we will certainly do that.

I think there are, as we mentioned in the script, a number of unknowns and uncertainties as exactly what it will look like, exactly how it will be implemented, how things might change between now and 2026 and beyond when we would see at least the impact from a negotiation perspective. So we are starting to think about those things. You highlighted the difference between Medicare B and D in terms of duration. And I think some of the -- on some of the other earnings calls, we've heard a lot of perspectives on that.

So I think what you'll see, though, is that we will certainly start to include the potential for that and think through those scenarios in terms of how we value and think about opportunities in the future.

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

And then, Chris, on your question on capacity. So we mentioned that pro forma for the Trelegy deal, we would have $1.1 billion of cash. We still feel like we have a lot of financial firepower. The business generates a lot of cash each quarter. And then we have our revolver, which is $1.5 billion. And we actually have a lot of leverage capacity.

So we mentioned that we -- pro forma for the Trelegy deal, we would be at 3.3x. And that would be -- that sort of represents Adjusted EBITDA of around nearly $2.2 billion. And we could put as much as an additional turn if we needed to on our leverage. So plenty of flexibility.

We feel really good about our ability to capitalize on the opportunity that we see.

Operator

Our next question comes from Chris Schott with JPMorgan.

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

Just two for me. I guess, first on the raising rate environment we're in. I guess we continue to get questions from investors in terms of the impact this has on your business. And I know you talked about your debt not maturing until post-2030. I know you funded a lot of deals with cash. But can you just remind us again how you navigate this higher rate environment? And do higher rates change at all the way you think about either the types of deals or sizes of deals you'd consider? So I think this is still kind of a question that kind of like overhangs the story as we think about rates moving higher.

My second question was on Tysabri and biosimilar competition there. I know that's one of your larger royalties and I think we've had some movement on that front. But can you maybe talk about -- just remind us how you're thinking about timelines and the potential for biosimilar competition for that product over time?

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

Thank you for the questions, Chris. Terry, why don't you take the question on interest rates and then Marshall, the one on Tysabri?

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

Sure. So it's a great question. It's very topical. We feel very good about our business model in a rising rate environment. Obviously, the portfolio having a diversified portfolio of noncyclical growth is really attractive in this environment. Our very low fixed cost base is also very attractive.

And then the fact that we were able to lock in rates on all of our debt at pretty historic lows with only less than half of it, I think it's around 60% or so maturing beyond 2030. So I think the way we think about the impact on our business, we do think if we -- we will have maturities over the next couple of years, and if we refinance, it would be -- it would obviously be at higher rates. But overall, we would think that the impact on the overall business would be pretty immaterial.

And then when we think about -- the great thing about our business is we're always reinvesting. And we would expect that, that rising rate environment to also trickle through to the prices that we pay for assets. And so there is a very nice sort of natural hedge in the business. And we're very confident that we can continue to deliver as we have in the past and deliver very attractive uncorrelated long-term compounding returns.

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

Yes. And then your question on Tysabri. So first of all, I think just taking a step back on Tysabri. This has been a fantastic investment for Royalty Pharma, and we think it's going to continue to be a contributor into the future. We have been, of course, following the Sandoz, Polpharma biosimilar for some time. And so this is the natural evolution of the news that we've seen recently with the acceptance of the filing.

So I think the important thing to keep in mind, and Terry might want to comment as well, is that when you look at consensus through the end of the decade, it certainly reflects a significant impact on the product from a biosimilar. So I think when you look over that -- over this period through 2030, certainly, it's already in expectations.

But diving in a little bit deeper on the details here. I think it's important to keep in mind, certainly, that there continues to be patents in the U.S. through 2027, and Biogen has talked very clearly that they'll protect their intellectual property there. And so we'll continue to watch for updates there and the implications for timing of when and how the biosimilar will launch.

But there's other important things to keep in mind. First is that Tysabri is, of course, a very unique product with its safety profile and the REMS and Biogen's history in the MS market are important. Also of interest is that we've taken a look at our claims data, which -- with our strategy and analytics team. And we looked at Tysabri closely, and it's interesting Tysabri actually is a very sticky product.

When you look at 2021, only about 12% of total patients on Tysabri were actually new patients. So it is a really sticky product. Patients like this. So when you think about how many patients there are on ongoing therapy, it's -- there's a lot of different ways that the biosimilar could play out.

And then lastly, it seems pretty unlikely that this will be a multi-sourced biosimilar market, which is most of the comparable markets that we've seen. Sandoz is the only known one right now to our knowledge. So there certainly aren't any clear comps. So we'll have to wait and see on if and when they are approved, when they might launch, but this has been a great investment for Royalty Pharma. And we certainly think there's a number of reasons why Tysabri could be resilient even in the face of biosimilar launches.

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

It's difficult to manufacture. And we also met several years ago, four or five years ago, the team that actually developed this and licensed it. So we're quite familiar with the situation.

Operator

Our next question comes from Terence Flynn with Morgan Stanley.

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

Two for me. I guess I was wondering if you could comment on the top of the funnel in terms of what you're seeing second half of the year versus either first half of this year or second half of last year, just from an opportunity perspective, given the sell-off in biotech. I was just wondering if you're seeing a step-up in incomings.

And then what percentage of those would represent kind of larger transactions, so things similar to MorphoSys and Trelegy.

And then my second question relates to 2022 guidance, just a clarification. Terry, I think you said that the Trelegy royalties would contribute to both third quarter and fourth quarter revenues this year, but just wanted to make sure I heard that correctly, given I think you announced the deal in July.

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

Thanks for the questions, Terence. Marshall, you should take the question on the funnel. And Terry, the one on guidance.

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

Sure. So we've certainly seen increasing momentum in the top of the funnel in terms of the number of things we're looking at and it is certainly up both as you think about year-on-year, as you think about the -- or even in terms of the pace of new things as we've moved through this year, things have definitely been accelerating.

So I think -- and a lot of that undergoes what we're saying about our confidence in the opportunity and the number of things we're seeing. As we've said before, our bar and our investment process remains the same. So we're really going to focus on things that we're really excited about and the best and most important opportunities. And that has been our strategy for years and will continue to be even as we are seeing an increased number of opportunities.

You asked about large transactions, too. There are always a number of large transactions that are in the funnel that we're watching, that we're working on at various stages. But as we've commented before, large transactions, it's very hard to estimate when they'll happen, at what pace they will happen, as you've seen with things like MorphoSys or as Pablo talked about with Trelegy.

They do have -- often have significant number of moving parts and takes multiple things coming together for them to happen. So we continue to expect them to happen. As you've seen, they certainly do since we've been public, but always hard to sort of say exactly when or at what pace they'll happen.

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

And then on Trelegy, yes, that's correct. We will record royalty receipts in the third and fourth quarter of this year for that product.

Operator

Our next question comes from Andrew Baum with Citi.

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

The first one is Trelegy. Could you just share with us the anticipated duration of the royalties on Trelegy, whether it's tied up to particular IP or other timelines such as anticipated generics? The reason I ask is given the complexity of increasing three active ingredients and you held, it could be that this product doesn't face any generics for a very, very long time, indeed, if ever. And therefore, that obviously has an impact on your returns depending on what ties the royalty streams to the returns.

Second also on Trelegy. Given that dynamic, I'm curious why GSK was not a buyer, given it obviously has the best visibility on the commercial outlook for that product. And then second question is for Pablo and Chris. I noticed in your comments on synthetic royalty, the focus was very much on biotech companies, which is not surprising. Previously, I know you've spoken to large pharma, and you obviously have the Pallas trial, which Pfizer participated in. Is this now acknowledgment that actually Pfizer, the large companies simply are not going to be tempted to use embedded royalties to hedge risk and their alternative preferred ways of financing?

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

Yes. Maybe I'll just answer that question about Trelegy and Glaxo . I think what I would tell you is that to -- a two-party deal is complicated to align the interest, negotiate terms that are acceptable to two parties. A three-party deal is much more complex. And in this case, it was a four-party deal. I've never done that in my life, but we managed to do it.

And it requires someone that has the patience, the interest, the creativity to listen to one party, understand what their motivations and goals are, process that, listen to another party, understand their motivations and interests and see if there's any common ground here, you can somehow bring together something that's going to work for both. And then listen to the third one, in this case, the marketer and then bring all of that together.

And it's not easy. It's highly, highly complex, and we, given how nimble we are, how small we are, can do those things, much more difficult for a bigger company to be able to achieve that. And I recall a transaction we did many years ago, it happened actually twice when we bought the Neupogen from Memorial Sloan Kettering, where on second, we bought first the U.S. royalty and then the ex-U.S. royalty and we partnered with Amgen.

And then a second time with Gilead to buy the royalty on emtricitabine from Emory University. And I recall how in a private conversation, CFO of Gilead said to us, we would have never been able to do these transactions by ourselves if we just went to directly buy royalty from the university

holder. And the reason for that was there were points during that transaction where one party wanted things to be done in the contract that were not acceptable to the other one, and there was an impasse.

And similarly, the other party wanted things in the contract that were not -- so we were in the middle, and we were able to go to each party and say, "Look, this is unreasonable. This doesn't make sense. They're not going to give it to you, and it's not needed." And they would sort of move off from that point. And we would do the same thing with the other side.

And at the end, basically, as I said, the CFO of Gilead at the time said, we would have never been able to do this ourselves. And the fact that we were able to achieve that and which worked for everyone. And I guess this was just much more complex, and we're ideally suited for complexity and deals like that.

So I'll stop there, but pass it on to Marshall to answer the other part of the question.

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

Sure. Andrew, so there are a number of questions there. If I don't touch on any of them, please let me know. The first one was about duration of Trelegy and the complexity given the various components and the device. So we haven't gotten into a tremendous amount of detail in our IP analysis, et cetera. What we have said is generally our expectations of duration are the middle of 2029, so June 30, 2029, outside of the U.S. and the end of 2030 in the U.S.

We're happy to take you through it in more detail, maybe offline. But the -- but I think overall, those are generally our expectations for how long we think the Trelegy piece will -- the Trelegy royalty will go.

The other question, I think you asked about why -- about large pharma using synthetic royalties, and we talked about working with smaller companies. And does that say that we don't expect to be doing R&D partnership with larger companies. So I wouldn't interpret it that way. I certainly think that a lot of the discussion has focused on synthetic royalties with smaller biopharma or emerging biopharma companies. I think that just reflects purely the changing in the external funding environment and the number of those companies.

And we do think that as a funding modality, as we talked about many times for those companies, we do think the synthetic royalties are going to be an important part of that. But that doesn't imply that we don't think partnering with larger companies is not going to be a part of our business either. We continue to be optimistic there. And think again that we have a high bar and, again, the larger companies and are -- what they want to partner on and what we want to work on have to meet up and create those opportunities. But we continue to think that's going to be a part of our business in the future.

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

I mean one thing that also -- just remembering the whole process on this transaction. There was some history to one of these other companies which made it complicated. But just reflecting on the whole process started. You cannot -- I cannot even tell you the number of times during the conversations where one party wanted to walk out of the door.

And I just wouldn't give up, I said, no, let's talk. And I just said I can persuade them to actually continue the discussion and open the door and let's be reasonable. And anyway. So at the end, that's what's required in transactions like this, and we have a lot of experience, and we can be creative. But I'll stop there.

Operator

Our next question comes from Stephen Scala with Cowen.

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

A couple of questions. First, there's no shortage of changes underway at GSK. Its priorities are changing. They've deemphasized respiratory research and it's recent respiratory launches Breo, Anoro, Nucala have been mixed, some successful, some less so.

I'm just wondering how did you become comfortable that Trelegy will ultimately attain its full potential? So that's the first question.

Second question is, I'm curious if the drug price reform bill, if passed, and companies decide to pare back on some R&D programs and areas whether that's an opportunity for Royalty Pharma to step in and fund programs, whether for the innovator or maybe an acquirer.

In other words, double down on small molecules and Part D drugs on attractive terms when others vacate the area?

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

Thank you. Maybe Marshall and Chris should take this question. But I just -- my own personal comments to the question about Trelegy. I mean one thing to look at is the very significant sales and marketing effort behind this product. The amount of TV advertising, for example, that you see on Trelegy, just amazing.

So I think this is just a great drug with amazing support from the leading companies in the space. But Chris, Marshall, do you want to add more to my answer?

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

Chris, you want to go head?

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

Yes, sure. It's Chris. We're very confident in GSK's commitment to Trelegy and the respiratory franchise. Obviously, they've gone through a very large transformation themselves, spinning off their consumer health business, most recently and focusing on their pharma and vaccine business. And Trelegy is going to be a super important part of that stand-alone company, GSK, going forward. So we're very confident in their commitment to Trelegy.

As it relates to maybe supporting R&D at pharma or biotech, given the potential pricing reform. Obviously, there's a lot still that could happen around pricing. We're not sure what the ultimate legislation will be, if any. But as Marshall said, I think the backing of R&D at both large pharma and small cap biotech and the creation of synthetic royalties is going to be an ongoing part of our business. We're engaged in those conversations today with both large pharma and small cap biotech to help them on the R&D front, and we think that will be a big part of our business going forward.

Operator

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

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

Thanks for the question. Terry, you guys have raised top and bottom-line guidance pretty consistently just given the strength of the business. And I know the goal here is to reinvest. But has your payout policy evolved as well? I wasn't sure where dividends fall in your capital priorities.

And then I had a follow-up on just the synthetic royalty structure. I mean you guys talked a lot about this at your analyst event, but it really hasn't been a component of major deals. Is it that structure? Is it that sellers don't like the synthetic carve-out? Or maybe just give us some -- a little bit more perspective on that.

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

Terry and Marshall, you should take those questions, the payout, Terry, and then the other one on synthetics.

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

Yes, sure. So on the payout, no changes there, Geoff. We -- last year -- or sorry, this year, we increased our quarterly dividend by north of 10%. We said that we're committed to paying a dividend. But clearly, our capital allocation priority is investing in new royalty streams. And that's where we're going to continue to focus. That's where we think we can create the most long-term value for shareholders.

And then the other thing that we -- the other area that we highlighted at our Investor Day is that over time, we could look to share repurchase as an additional way to return capital to shareholders. But clearly, our focus is on buying new royalties.

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

Great. And Geoff, the second question on synthetic, very much appreciate the question. I'd say, overall, I'd come back to some of the themes that we've touched on in the past with respect to our approach to synthetic royalties, is that we do think this is going to be an important part of our business. But one thing that has really characterized our approach to building the portfolio over time has been we're patient, we're disciplined, and we're going to wait for and we're going to wait for the right opportunities.

So we have a lot of conversations. I don't think there's any shortage of interest. But I do think finding later-stage development programs or launch or programs that are commercialized that where that meet all of -- that meet our bar and the things we really want to put into the portfolio is something that we're going to let happen and make sure that we are building with the right opportunities.

I mean you've seen us do it with multiple products over time. Biohaven, BioCryst, Immunomedics, Cytokinetics. So we're doing them, but I think the discipline and the approach that I think everyone has come to expect from us that we're going to continue to apply as we build our portfolio and build the market for synthetics.

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

If I may just add whether companies like or not synthetics, at the end of the day, it doesn't matter to us. We're open-minded. We can do just a royalty deal, a royalty and equity deal, a royalty equity -- also include launch capital, development capital. We are very open-minded, and we don't insist that it has to be one way or the other. In fact, being flexible is probably the best way to approach the discussions with potential partners, but offering them the whole range of solutions is what actually results in us being successful and being a good partner.

And I would say, if you look at companies, I think in our Investor Day, we had some statistics that if you look at companies like Biohaven, a company that raised from May 2017 to now, $3.2 billion of capital to develop their very (inaudible) $3.2 billion. We were 26% of that with about $800 million.

If you look at Cytokinetics, $2 billion capital raise, actually 20% of that. BioCryst, smaller amount from 2012 to $1.3 billion raised, we were 25% of the pharma.

So I think companies understand the benefits of the different structures we can put in place. They really like it, and they embrace it. And -- but it is a question of educating the market, right? Really companies understand the benefits to them of the way we can bring the power of our model to help them successfully develop their programs.

And it is something that we're having a lot of really positive traction with many companies, particularly now where things are getting very difficult for companies, and we're having a lot of conversations. I think management teams are eager to really understand what's unique, and I think we're very optimistic about how things are going.

Operator

Our next question comes from Mike DiFiore with Evercore.

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

Congrats on the continued progress. Just two quick ones. One is the IRR on the Trelegy deal. It definitely seems to close -- the deal itself seem to close a royalty gap in the back half of the decade due to the CF LOE, but the IRR, at least according to my math, seems a bit mediocre. I mean so how should we think about the discount rate in our calculations? And I know you mentioned mid-single digits at your Investor Day, but wondering if you could add any additional color here.

Separately, what are your expectations for ampreloxetine? The Street really isn't giving much credit, if at all, given the prior Phase III failure and kind of want to see your thoughts on this.

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

Yes. So just -- I think the IRR, it's not mid-single digit, it's more like high single digit. And I think one of the things that I think is important is that we -- like you're looking at it from the perspective of maybe either the analyst consensus or your own forecast. But we actually take a very deep dive and really try to understand the growth dynamics of products.

And like what we've seen happen over and over again, it's happened over the many, many times that the bigger products marketed by companies where they're so important to them are assets that tend to outperform our expectations, analyst expectations. So I think this is an asset that has the potential to do really well, and we're excited about it.

So that's the answer related to the IRR. And obviously, this is one that is very leverageable because of the very strong cash flow that it produces. So it actually balances really well the other part of our business where we're taking more risk and investing in things that are not producing cash flow in the near term.

But maybe I'll pass it on to Terry to talk about the IP expiration of CF because I think our view is that CF goes well beyond the decade into the next decade. But Terry -- and maybe I didn't get your question right, but do you want to take that question?

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

Yes. I think -- can you -- Mike, can you repeat the question? I maybe -- I think I heard something different than Pablo.

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

Yes. No, I was just saying that the deal itself seems very good because it definitely seems to kind of close the royalty receipt shortfall due to any possible CF LOE in the back half of the decade. That's what I was saying.

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

Right. Okay. Got it. Yes. Okay. So I think Pablo touched on that. But we're really excited about it, and we think that the IRR is very much consistent with what we've targeted and what we've said is high single, low double for these approved products. And this is sort of right in that range with what we think is some -- hopefully, some upside potential there.

I think you also had a question on our expectations for ampreloxetine. Maybe Marshall wants to take that?

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

Yes. Sure. So on ampreloxetine, a couple of important things to keep in mind. I think, first of all, we -- as we've talked about and as Pablo touched on, we always try in our deals to be good partners and try and be as constructive and flexible as possible. And so that's why it was really interesting to include ampreloxetine as part of the broader and very large Trelegy transaction with Theravance.

So important to keep in mind that it's an interesting product, but certainly a more modest part of what is a very large deal. That being said, the product has shown some interesting data, we think, in -- for orthostatic hypotension and in the subset of patients with multiple system atrophy, as Theravance has talked about.

So we're excited to see how that program develops and certainly could offer some interesting upside as the deal evolves.

Operator

And our last question comes from Ash Verma with UBS.

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

I just had one on Trelegy. So just curious like what drove the upfront percentage amount in this deal? Does that represent a template for commercial stage deal? Or was the upfront more than what you would typically pay?

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

Marshall, can you take that question, please?

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

Sure, Ash, thanks for the question. So the way to think about it on how we structured it is each deal is certainly a blank sheet of paper, and we do, as we outlined at our Analyst Day, very careful analysis of the commercial opportunity, and we work a lot with our partners to find a deal and a structure and a valuation that's a win-win for both of us. And I think that was the approach that yielded the Trelegy deal.

So I don't think you should necessarily take this as a template or anything like that. Like we've said, every deal is different. Every deal has its specific dynamic. So here where there was an upfront and some additional milestones based on future commercial performance was the right structure. I'm sure we'll use a structure like that again in the future, but always we're trying to find the right structure for our partner and for that specific royalty.

Operator

Thank you. I would now like to turn the call back over to Pablo Legorreta for any further remarks.

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

Thank you, operator, and thanks to everyone on the call for your continuing interest in Royalty Pharma. And I'll just close by saying that we had recently our Investor Day, and we spent a lot of time outlining Royalty Pharma, its uniqueness, our business strategy, how we do things, why companies want to partner with us, what we bring of value to companies. And also the very, very significant size of the opportunity we have in front of us funding this incredible ecosystem that is in its sort of golden age of innovation.

And we laid out -- outlined, also, goals in terms of capital deployment and growth. And I think what you're seeing this year, as the year has gone by, is us delivering against those goals. We're up to $2.5 billion of capital deployed, and we're halfway through the year.

So we're super excited. I think Royalty Pharma is clearly becoming the partner of choice of all of the other innovators in life sciences. And we're excited to continue the relationship with all of you over time, and we're here to answer questions. So reach out to George and anyone in the team. But thank you all for listening today.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.
