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OVERVIEW:

Company Summary

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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, Senior Vice President, Head of Investor Relations and Communications. Please go ahead, sir.

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

Good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's Second Quarter 2023 results. You can find the press release with our earnings results and slides of this call on the Investors page of our website at royaltypharma.com. Moving to Slide 3. I would like to remind you that information presented in this call contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from these statements. I refer you to our 10-Q on file with the SEC for a description of these risks. All forward-looking statements are based on information currently available to Royalty Pharma, and we assume no obligation to update any such forward-looking statements.

Non-GAAP financial measures will be used to help you understand our financial performance. The GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website. And with that, please advance to Slide 4.

Our speakers on the call today are Pablo Legorreta, Founder and Chief Executive Officer; Marshall Urist, EVP, Head of Research and Investments; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights. Marshall will then provide a portfolio update, after which Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session, when we will be joined by Chris Hite, EVP and Vice Chairman. With that, I'd like to turn the call over to Pablo.

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

Thank you, George, and welcome to everyone on the call. I am delighted to report another solid quarter of execution against our strategy as the leading funder of innovation and life sciences. Slide 6 summarizes our financial achievements in the second quarter, which again demonstrates our strong momentum and the power of our business model. First, we delivered solid financial performance prior to the Biohaven-related payment we received in the second quarter of 2022. Adjusted Cash Receipts, our top line, grew by 7%, Adjusted EBITDA by 6%, and Adjusted Cash Flow grew by 9%. Second, on capital allocation, year-to-date we announced royalty acquisitions of up to $1.7 billion, including $659 million in upfront payments.

We also initiated our $1 billion multi-year share repurchase program. As of last night's close, we have repurchased approximately six million shares for a total spend of about $185 million. Third, we're raising our full-year guidance for Adjusted Cash Receipts to between $2.9 billion and $2.975 billion. Our guidance reflects expected underlying growth from our portfolio of between 6% and 10% prior to the Biohaven-related payments. Consistent with our standard practice, our guidance is based on our current portfolio and does not include the benefit of any future acquisitions this year.

On Slide 7, you can see our financials in more detail. We delivered 7% growth in our top line prior to the Biohaven-related payment in the prior period, and 4% if we include this payment. Foreign exchange continued to represent a headwind, impacting our top line by around minus 1% to minus 3% in the quarter. If we also adjust for the foreign exchange impact, we would have delivered approximately 9% top-line growth in the quarter, underscoring the strong underlying momentum in the business. Similar to our top line, we grew our Adjusted EBITDA by 6% in the quarter prior to the Biohaven-related payment and 4% including this payment.

Adjusted EBITDA is an important non-GAAP measure for us, which is arrived at by deducting payments for operating and professional costs from our top line. Lastly, our Adjusted Cash Flow, our bottom line, grew by 9% in the quarter prior to the Biohaven-adjusted payment, and 6% including this payment.

Slide 8 shows our impressive track record of strong top-line growth since our IPO in June of 2020. Despite foreign exchange headwinds and losses of exclusivity, we delivered 9% growth prior to the Biohaven-related payment in the first half of 2023. This reflects our ability to consistently execute against our strategy. With that, I will hand it over to Marshall to update you on our portfolio performance.

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

Thanks, Pablo. Consistent with the variable timing of our opportunities, this was a relatively quiet quarter in terms of new additions to the portfolio. We did make a small investment to acquire incremental royalties from UCLA on J&J's prostate cancer therapy, Erleada, which is already a part of our oncology portfolio. Our team remains incredibly busy as we continue to have an active and robust pipeline with a consistent mix of approved and unapproved products and pre-existing and synthetic royalties across a wide variety of therapeutic areas. But today, I want to focus on the potential impact of the Inflation Reduction Act as we approach the announcement by CMS of the initial list of 10 drugs to be selected for 2026 price determination that is expected by September 1st.

Moving to Slide 10. As we have discussed previously with many of you, there are three Medicare Part D drugs in our portfolio, which we expect to be subject to IRA price concessions over the 2026 to 2027 period. Namely Xtandi, Imbruvica and Trelegy. However, based on the specific dynamics of each of these three Part D medicines, we calculate the impact from the IRA to Adjusted Cash Receipts to be in the low single-digit percentage range for 2026 with an even lower portfolio NPV impact. Taking these in turn, Xtandi loses exclusivity in 2027, as we have indicated previously, so we face only around one and a half years of exposure to additional price concessions. In the case of Imbruvica, as you are all aware, competition is driving sales erosion, and it is likely to represent a substantially smaller portion of our royalty receipts by 2026 than it does today. And lastly, on Trelegy, which could be impacted in 2027, we note the product is already highly rebated, and thus the additional price impact from IRA may prove more modest. Furthermore, although not factored into our IRA impact analysis, increased utilization could help to offset potential pricing pressure.

And as a reminder, we do not have any meaningful exposure to therapies in Medicare Part B that will be selected for IRA price determination.

Now taking a step back. On a strategic level, in this IRA era, we remain in a very strong position given the many unique attributes of our business model. Our unique therapeutic-area and modality-agnostic approach affords us broad strategic flexibility to focus our attention on the most attractive opportunities in those therapies for which we see the highest levels of innovation, patient need and commercial opportunity. Moreover, given our flexibility, we are already reflecting the potential impact of IRA in the valuation and investment structure of new royalties we may acquire.

And with that, I'll hand it over to Terry.

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

Thanks, Marshall. Let's move to Slide 12. Total royalty receipts grew 1% in the second quarter versus the year-ago period. Excluding the Biohaven-related payment in the prior year period, royalty receipts grew approximately 3%. The increase was mainly due to the strong performance of the cystic fibrosis franchise and the addition of royalties on Trelegy and Spinraza. We also saw growth contributions from most of our other key royalties, including double-digit increases from Promacta, Tremfya, Cabometyx, Evrysdi and Trodelvy. These positive factors were partially offset by the loss of the DPP-IV royalties, weakness in Imbruvica and Tysabri, and adverse currency movements. In addition, our royalty on Xtandi faced a high base of comparison due to a true-up in the prior-year period.

Turning to Adjusted Cash Receipts. Slide 13 provides a deeper dive into our top-line performance in the quarter to show the various moving parts. The solid performance of our base business and the acquisition of Spinraza royalties allowed us to deliver 7% top-line growth before taking into account the impact of the prior-period Biohaven related payments. Royalty expiries and foreign exchange represented a combined headwind to growth of around minus 6% to minus 8%. Slide 14 shows how our efficient business model generates substantial cash flow to be redeployed. As you're aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrive at after deducting distributions to noncontrolling interests. This amounted to $545 million in the quarter or growth of 4% compared with last year's second quarter.

As I just noted, adjusting for the prior-period Biohaven related payment, growth would have been 7% in the quarter. Operating and professional costs were approximately 9% of Adjusted Cash Receipts in the quarter. As a result, we reported 4% growth in Adjusted EBITDA in the quarter, broadly consistent with our top-line growth. When we think of the cash generated by the business to be redeployed in new, value-enhancing royalties, we look to Adjusted EBITDA less net interest. During the quarter, we received positive net interest of $18 million, reflecting the semiannual timing of the payments on our $7.3 billion of unsecured notes, which occur in the first and third quarters. We benefited from higher interest rates in the quarter given our strong balance sheet cash position.

After de minimis ongoing payments for development stage funding, Adjusted Cash Flow, our bottom line, grew by 6% to $512 million or $0.85 per share for the quarter based on weighted average diluted Class A shares outstanding of about 606 million.

We would expect greater benefit from the recent share repurchase activity in the third quarter as the impact on the second quarter was muted largely due to the timing of the repurchases. Lastly, our Adjusted Cash Flow margin was 94%, which once again highlights the efficiency of our business model.

Let's now move to Slide 15 and our financial position. We continue to maintain significant financial firepower for future royalty acquisitions. Year-to-date, we deployed over $680 million of capital on royalty acquisitions as well as close to $380 million combined on dividends and share repurchases.

This was more than offset by our strong cash flow generation, so the cash and marketable securities increased to $2.2 billion at the end of June. Expanding briefly on our share buyback program, we repurchased approximately four million shares in the quarter and repurchased another two million shares through yesterday's close, for a total outlay of about $185 million.

Slide 16 updates our full-year 2023 financial guidance. We now expect Adjusted Cash Receipts to be in the range of $2.9 billion to $2.975 billion based on our strong portfolio performance. As a reminder, this guidance includes the $475 million Zavzpret milestone we received in the first quarter. Our guidance also assumes an FX impact of approximately minus 1% to minus 2%, which is unchanged from previous guidance.

Importantly, and consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account the benefit of any future royalty acquisitions. We expect payments for operating and professional costs to be approximately 8% to 8.5% of Adjusted Cash Receipts in 2023, which is at the low end compared to our previous guidance range of 8% to 9%.

Interest paid for full-year 2023 is still expected to be around $170 million and to follow the established quarterly pattern with de minimis amounts paid in Q2 and Q4. This does not take into account interest received on our cash balance, which was $35 million for the first six months of 2023. Finally, we expect to make a $50 million milestone payment to Cytokinetics in the second half of this year based on their guidance that they will initiate a pivotal trial of aficamten in non-obstructive hypertrophic cardiomyopathy in September. This $50 million will be recorded as a development-stage funding expense.

Slide 17 drills down further on our Adjusted Cash Receipts guidance. The graphic is illustrative, but sets out the various pushes and pulls behind our outlook for 2023. Starting with the left-hand side, we face a high base of comparison due to the $509 million of Biohaven related payments, which we received in 2022. Adjusting for these payments brings the underlying base for 2022 Adjusted Cash Receipts to $2.28 billion. On the right-hand side, if we start from the Adjusted Cash Receipt base prior to Biohaven, we expect underlying growth of 6% to 10% this year prior to the Zavzpret milestone payment. This compares with underlying growth of 4% to 9% under our previous guidance.

And as I mentioned earlier, this growth does not include the benefit of any future acquisitions. After taking into account the $475 million milestone payment on Zavzpret, our raised top-line guidance is $2.9 billion to $2.975 billion.

On these next three slides, I want to spend a little time discussing the cystic fibrosis franchise. We understand there has been significant investor interest on this topic with Vertex indicating that Phase 3 data for the new triple could be available by early 2024. As a reminder, the new triple is the potential follow-on to Vertex's flagship product Trikafta. This slide highlights the common investor questions we receive on the new triple and the key levers that will impact our business. These include the royalty rate, the duration of the royalty, potential uptake of the new triple, and implications for Vertex's CF franchise growth of the new triple.

We will address each of these in the following slides, including book-ending the range of potential outcomes to our top line. We would note that the analysis on these slides is consistent with our previous comments, but lays out our view in more detail. Slide 19 illustrates why we continue to believe that the cystic fibrosis franchise will be a very important part of our portfolio for many years to come, and why we see only a potentially limited financial impact from Vertex's new triple under downside scenarios.

Taking a step back, for those less familiar with our story, the key question is the royalty rate on one component of the new triple, the deuterated ivacaftor component. Let's start with the different royalty rate scenarios.

On the left-hand side of the graphic, you can see that we currently receive a royalty from Vertex of approximately 9% of total net sales of Trikafta. If their new triple comes to market and we receive royalties on the deuterated ivacaftor component, our royalty rate would be around 8% of total net sales on the new triple. As we have said previously, we strongly believe that deuterated ivacaftor is the same as ivacaftor and should, therefore, carry the same royalty rate as ivacaftor. Under a hypothetical downside scenario in which we do not receive any royalties on the deuterated ivacaftor component, the royalty rate would be approximately 4% of total net sales on the new triple.

Now let's think about the potential value of the cystic fibrosis portfolio as we look longer term. Vertex has provided 2023 guidance for net franchise sales of $9.7 billion to $9.8 billion. And current consensus estimates have this increasing to around $11.5 billion in 2030. Our view is that the CF franchise, including the new triple, could reach $13 billion or more which is above consensus in 2030. This view is based on increased penetration rates in the younger age groups and new geographies as well as the up to 6,000 patients who discontinued therapy and are candidates to reinitiate therapy with the new triple that Vertex has identified as an important opportunity. The next column of this graphic pulls together these factors to quantify the potential impact to our Adjusted Cash Receipts, our top line, in 2030 based on a number of different possible scenarios.

As a reminder, we record total royalties and then pay a portion to a noncontrolling interest to arrive at Adjusted Cash Receipts. For those who want to see the detailed calculation of how we arrive at Adjusted Cash Receipts under the various CF franchise scenarios, please refer to Page 27 in the appendix of today's presentation.

Let's start with consensus as a baseline. Looking out to 2030, our Adjusted Cash Receipts from the cystic fibrosis franchise are expected to be around $900 million, an increase from around $750 million in Adjusted Cash Receipts for the cystic fibrosis franchise expected in 2023. Now let's look at the scenarios with the new triple. As a reminder, Trikafta has transformed the lives of CF patients globally, setting an extremely high bar, and we expect it to play an important role over the long term given its impressive clinical profile.

However, to help investors explore the impact of the potential new triple, for this analysis, we conservatively assume robust uptake of the new triple with 50% to 75% of patients switching from Trikafta. We believe this suggests a significantly improved profile compared to Trikafta, which may not come to fruition. If we are correct and the royalty rate is 8%, our Adjusted Cash Receipts could possibly be a little higher at around $900 million to $950 million due to higher sales of the new triple than current consensus estimates.

So under this scenario, there could be some upside to our CF franchise royalties. If we then consider the hypothetical downside scenario in which we do not receive royalties on the deuterated ivacaftor component and again, 50% to as many as 75% of patients switched to the new triple, we estimate our Adjusted Cash Receipts from CF would decline to around $600 million to $700 million in 2030. Therefore, even in this downside scenario, the impact on Royalty Pharma's Adjusted Cash Receipts, or top line, is only around $200 million to $300 million compared with estimated 2030 Adjusted Cash Receipts implied by current consensus estimates. To put this figure in context, the $600 million to $700 million in Adjusted Cash Receipts in the downside scenario is only modestly below our expected 2023 Adjusted Cash Receipts from the cystic fibrosis franchise. Furthermore, we would benefit from the extended duration of the CF franchise as the new triple would have patent protection to potentially between 2039 and 2041, as compared with 2037 for Trikafta. This would reduce the potential NPV impact to us even in the downside royalty rate scenario.

So putting this all together in potential downside scenarios, we estimate there would only be around $1 to $2 per share negative impact to the NPV of our existing portfolio as of today.

Taking a step back, we must consider any impact of Vertex's new triple therapy in the context of Royalty Pharma's broader business. We continue to execute strongly on our strategy and are targeting a top-line CAGR of 10% plus over this decade, regardless of the royalty rate we ultimately receive on the new triple as we indicated at our Investor Day in May of 2022. This growth target implies Adjusted Cash Receipts of around $4.7 billion or more and importantly, includes downside CF scenarios, as you can see in the graphic. To this end, we would note that transactions just since 2020 are expected to add around $1 billion in Adjusted Cash Receipts by 2025.

Furthermore, the at-risk portion of our CF franchise royalties of around $200 million to $300 million that we quantified on the prior slide would be a small percentage of a significantly larger top line that we expect by the end of this decade. Specifically, as we continue to diversify our business, the CF franchise is anticipated to decline from around 30% of our top line to a teens percentage by 2030. So all considered, we continue to believe any potential impact of the new CF triple combination therapy would be limited and manageable in the context of our broad and growing portfolio. With that, I would like to hand the call back to Pablo for his closing comments.

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

Thanks, Terry. Let me start my concluding remarks by saying how pleased I am with our continued strong execution against our strategic priorities in 2023. We're well on track - not only to deliver our raised guidance for the full year, but to drive shareholder value creation and transform patients' lives globally.

On Slide 22, I want to highlight an important event in partnership with the Massachusetts Institute of Technology that took place in the quarter and underscores our role in advancing the healthcare ecosystem. In June, we sponsored our third annual Accelerating Bio-Innovation Conference. This year's ABI conference at MIT follows similar conferences we organized in the University of Cambridge in the United Kingdom in 2019 and 2022. The aim of this unique conference is to facilitate discussions on translational sciences and drug development and to connect diverse parties in the biopharma ecosystem.

This year, we had a tremendous turnout of 280 life sciences executives including 76 CEOs, 80 scientists, and three Nobel laureates. The audience was balanced between industry and academia and had a strong representation of both U.S. and ex U.S. participants, as well as finance professionals, including many leading VC firms.

The feedback we received from the conference was uniformly positive and set Royalty Pharma up well for future dialogue with many of the innovators in attendance. In short, this unique conference is another example of our win-win approach and keeps us front of mind for those seeking a partner to fund their innovation.

To finish, on Slide 23, we just passed the third anniversary of our June 2020 IPO and I would like to take a moment to highlight our significant accomplishments since then. First, we delivered significant growth. If we set aside the Biohaven related payments, our raised top-line guidance for 2023 is around 35% higher at the midpoint compared to the $1.8 billion we delivered in 2020.

Furthermore, we increased our five-year growth outlook from 6% to 9% to 11% to 14%, a more than 65% increase. This growth profile positions us at the upper end of projected growth in large-cap biopharma. Second, we significantly expanded our capital deployment based on the strength of our business model, our competitive moat, and the vast opportunity set. We have deployed capital well ahead of our initial expectations, which led to an increase in our five-year target for capital deployment by more than 50% to between $10 billion to $12 billion. What I'm most proud of when I look back at our investments over this three-year period is the quality of the new royalties we have added to the portfolio. The bar has remained very high. Third, we have significantly strengthened our portfolio. We have added 21 therapies in the past three years, a 50% uplift on the prior three years and we have more than tripled our number of development-stage therapies to 11.

Lastly, we have substantially strengthened and scaled our platform. Full-time employees now number 86 compared with 35 prior to the IPO. We have added important capabilities in data analytics, and we have cemented our leadership position in royalty funding. And in line with our expanding opportunity set, we have been able to take on significantly larger workloads with in-depth opportunity reviews increasing by 40% over the past three years.

My team and I are very proud of these accomplishments and excited for the years ahead when we expect to deliver many more milestones. In closing, I remain highly confident that Royalty Pharma has its best years ahead and that we're on track to deliver a very attractive growth and return profile. With that, we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

Appreciated the very thorough and thoughtful discussion of two issues which have been debated amongst investors on the triple combination, Vertex during their recent call said that they view the difference in the royalty potential as substantially lower, what you outlined is the difference between potentially 8% versus the worst case of 4% -- a 4% difference. Is there any dispute over the actual royalty levels and the magnitude of the difference in those scenarios? And then on the IRA, could you help us understand since we're on the verge of 12 months ahead, understanding better how implementation will occur, what ranges of price discounts you factored in, in order to extrapolate your kind of exposure risks. Just for some perspective, that would be helpful.

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

Thank you, Chris. Terry is going to take your question on the triple, the CF triple, and then Marshall will address your question on the IRA.

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

Yes. So Chris, when you look at the rates that we described on the page, there's no debate about the rate on Trikafta. The only question is, do we get the -- and that's all based on the contract. The only question is, do we -- are we entitled to royalties on the deuterated ivacaftor component? If we are, and they're the same as the ivacaftor component, then we think that the royalty would be 8%. And if we are not correct and ultimately, we would only receive royalties on the tezacaftor component, so the royalty would be 4%. So those are sort of the bookends that we laid out there.

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

Great. And Chris, on your second question on IRA just at a high level, we took, I think, a broad approach in terms of looking at different scenarios. And without getting into numbers specifically, we did take what I think we all feel like is a pretty conservative view in terms of what the price reductions related to IRA might be. And so wanted to cover, I think, again, a wide range of scenarios there.

So and the other part of your question was on the implementation. I think we're all watching and trying to understand how all that is going to work out. There's obviously lots of moving pieces there in terms of benefit structure and how formularies change once the negotiated price products are available at that price. So I think there is a lot to watch and a lot to learn, but we did take a pretty conservative view and wanted to provide everyone some guidance and thoughts on what it might mean for Royalty Pharma.

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

Chris, one thing I suggest you may want to do is go to the appendix on Slide 27. We laid out in greater detail the calculation of our royalties on the cystic fibrosis franchise, depending on these different scenarios. So that's maybe something that would be helpful in your analysis and forecast.

Operator

The next question comes from Chris Schott with JPMorgan.

Hardik Parikh - *JPMorgan Chase & Co, Research Division - Research Analyst*

This is Hardik Parikh in for Chris Schott. So a quick question on immunology space. So we've seen a strong focus there in kind of recent acquisitions in the pharma space. And I know you already have exposure to Tremfya, but how are you thinking about kind of additional exposure to the immunology space? How do you see the opportunity for Royalty Pharma.

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

Sure. Marshall, why don't you take that question?

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

Yes, of course. Thanks for the question. You point out it is today an important focus for us with Tremfya and has been historically, as many of you know, we have a long history in this space with the TNFs all the way back to the beginning. So we are watching all of the developments in this space in terms of new markets and in terms of oral opportunities against some of the targets in this space and continue to look for great opportunities there. I think we are really excited to have Tremfya as a part of the portfolio when we see what it's doing in psoriasis and then with inflammatory bowel disease to come, backed by a great marketer in J&J and exactly the kind of high-quality products in large growth markets that we're looking to add to the portfolio.

Operator

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

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

I just had two. The first is for Terry, so super helpful math for CF. I really appreciate that. I know you're not going to go into legal strategy, but can you talk about just the timing of when we could get some resolution. Does the discussion with Vertex start when vanzacaftor launches? Or can there be anything to resolve before? And the second question, Marshall, on Slide 29, you guys show the royalty pipeline. I know today is a strong contribution from rare disease, but going forward, it doesn't look like that. I wasn't sure if this was an intentional strategy and you guys are emphasizing maybe broader markets or bigger deals going forward? Or if that was just the way it played out.

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

Thanks for your question, Geoff. Terry, why don't you just elaborate on the first part of his question. And then Marshall, you can go ahead and talk about the pipeline.

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

Yes. So sure, Geoff. So in terms of timing, we totally understand that investors want to understand the timing. The first sort of card to turn over will be the actual data, which we'll sort of see in early 2024. But beyond that, we really -- at this point, it's just difficult for us to elaborate on any specifics around timing, but we obviously the first -- the critical question is, what does this drug look like, and is it something that could be approved and competitive with Trikafta?

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

And Geoff, on your second question on the pipeline with respect to orphan disease, nothing there in terms of any sort of strategic change or shift or focus -- the orphan space remains a place where we continue to look at opportunities and be active. And I just make two comments. One is just to remind you, we did a deal for an orphan product with Spinraza at the very beginning of this year, so it remains really central to our strategy and opportunities that we're considering. But again, just a reminder, the strategy remains to look at all -- look broadly at all opportunities in therapeutic areas to find the most exciting and actionable opportunities in front of us, and that's our strategy. And so that means sometimes though we might be a little bit more active in one space at one point in time and a little less active. But when you look over longer periods, I think covering the whole waterfront remains the core strategy.

Operator

The next question comes from Terence Flynn with Morgan Stanley.

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

Great. Maybe two for me. Just wondering how you are thinking about share repurchases from here? Obviously, you saw some activity in the first half of the year, but just how should we think about that on the forward? And then, again, I apologize if I missed this. But Terry, just in terms of the vanzacaftor profile, that you assume in your 50% to 75% conversion scenario. Can you give us your thoughts on what that assumes in terms of FEV and sweat chloride?

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

Sure. Thank you, Terence. Maybe just very top level about the share repurchase program. It's obvious to us when we look at the fundamentals of this business, whether you look at it on a DCF basis or multiple basis that we believe that at these levels, the stock is a very attractive purchase. So as a result of that, we launched this $1 billion share repurchase program where Royalty Pharma will be buying shares over time. And as you saw, we acquired $185 million through last night.

Personally, I've decided also to purchase shares at these levels and have done so at a smaller scale, but a meaningful amount for me given the fact that I own already so much of the stock, but I have been very active also acquiring shares and we're going to continue, but we think that this is obviously a very attractive purchase at these levels. Terry, do you want to add anything else about the share repurchase program? And then Marshall will talk about the other part of your question.

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

Yes. The only thing I would add is, we think it will continue to sort of be a balanced approach, our number one priority, and this has not changed, is to buy royalties. But -- and that's going to be the number one use of capital. But when we see the opportunity to return capital to shareholders at what we view as extremely attractive prices, we think that's also a nice tool that we can have in the toolkit, and we think it's a great way to create some additional value for shareholders.

And then to Terence, your question on our assumptions for this new triple and the clinical profile, we looked at -- we obviously considered a range of scenarios. We've followed this space for a really long time, made our first investment here. Pablo made the first investment in CF 25 years ago. So we know the space really well. And I think our view is in order to get to that 75% type share scenario, our view is that the new triple would need to be meaningfully better than Trikafta on both sweat chloride and FEV1. So we'll have to wait and see. That's why we wanted to kind of take the debate off the table by showing what it could look like if that does end up being the case. And as you can see, if 75% of patients were to switch, it's still pretty -- very consistent with the top-line Adjusted Cash Receipts that we're going to record this year from CF. So there isn't really -- there seems to be this perception that the downside was really significant that somehow this franchise was going away, and that's just not the case as the analysis that we showed today demonstrates.

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

I think what Terry meant was -- I don't know if it was totally clear or not, Terence. But like this year, we're going to record about $700 million from our investment in CF and in the downside scenario, it's $600 to $700 by 2030. So it's very similar, but there's obviously scenarios where this could be higher as we highlighted. So there's even some potential upside for us from the current levels. Even assuming a 75% switch or other assumptions, there could be some upside.

Operator

The next question comes from Andrew Baum with Citi.

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

Thank you again for taking the time to walk through the CF math. So my question is, I mean, everything that you explained is math that we and I'm sure others on the call have done previously and yet the share price, I think much to your frustration, is not reflecting what many think it's worth, which seems to suggest that it's not really the CF concern that may be driving it. It's more a fundamental lack of belief in the future IRR bearing any reflection to the historic one. Perhaps you could talk to what are the factors that you think about could be contributing to the underperformance of the stock. And aside from the buyback, is there anything that you can do apart from deploying capital and prosecuting your business and hoping that the market reflects it at some point?

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

Yes. I'm going to ask Chris to actually talk a little bit more broadly about the big market opportunity in front of us. But I think I just want to remind all of you of another important thing that has occurred with Royalty Pharma that is fairly unusual, which is that we have a massive, massive shift in the shareholder base from the legacy shareholders we had and were our partners for 20-plus years when we were private to the new current shareholder base, we have -- a lot of the investors we had in Royalty Pharma that grew with us and supported us and were incredibly loyal over more than 20 -- really 24 years since '96 to 2020, were high net worth individuals, family offices, many of which, when they invested where people I actually approached and they trusted in us and the business model. But then the shares went to second and even third generations and they were sort of split in many of this investor groups into many different hands. And also, there was a very large component of investors that were foundations, endowments like Harvard Management Company, Columbia University endowment, Boston University, Emory, many of that nature. Some foundations like the Robert Wood Johnson Foundation and others. And we go public in June of 2020, and many of these investors, having been in the stock for over two decades and having achieved very, very significant value creation have sold their shares. And specifically, the endowments and foundations, we went from them viewing us as a manager that they could allocate capital to and actually did so, every time we raised money, they would invest more because of the very strong performance, to now becoming a stock. And as you know, university endowments are not stock pickers. That's not their business. We don't fit any box in those kind of investors' portfolios. So they -- when we became public, they had to sell. They had to sell because it's not their business to be actually investing in specific stocks, they allocate money to managers that do so. So we have this massive shift in the shareholder base, where over 62%, 63% of the shareholders change hands and then in addition to -- just to give you a sense, 62%, 63% have sold, which meant that we had to replace $16 billion or so of capital with new investors. And we've done that over the last three years.

So we have this very significant headwind of just constant turnover and selling of shares. That's behind us. And then the remaining ownership 32%, 30-ish percent is owned by management and the Board. So I think when you add those two numbers, 62%, 63% and 32%, we're close to 60% -- 95%, sorry. So all of that is now behind us. And obviously, what we need to do now going forward, is to start to cultivate many other investors that I think we believe will see Royalty Pharma as a very attractive investment proposition. Many generalists in Europe that could see an investment in Royalty Pharma as a way to invest in the cutting-edge of biotech innovation in the U.S. life sciences innovation. And that's something we're committed to do over the next few years. And it takes a lot of work because we're an N of one, so we need to educate investors about our business model, what's unique about it. And the very, very strong performance that it can achieve, that we had achieved already since the IPO, and we can talk more about that later. But I'll stop there. Chris, maybe you want to talk about other aspects about the big opportunity we have ahead of us.

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

Sure. Thanks, Pablo, and thanks for the question, Andrew. We just need to continue to execute. We see the opportunity in front of us. We've talked a lot historically about the overall R&D spend in the sector between profitable large pharma and the needs of emerging biopharma as well as the R&D spend and the fragmentation of the sector in terms of R&D spend by governments and not-for-profits. And all of that leads to our increasing opportunity set. And I think Pablo did a nice job on Slide 23, where we've talked about increasing our capital deployment goals to $10 billion to $12 billion over the next five years, that's a 55% increase from our initial targeted IPO. We've actually announced transactions since 2020 for a total transaction value of over $10 billion, which is three times greater than what we had done in the prior three years. So we see the enormous opportunity set in front of us, we think the market is growing in a sense of their understanding of how royalties can be a component of their capital formation, and so we're extremely excited about the future. And we just need to continue to execute.

Operator

The next question comes from Umer Raffat with Evercore.

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

This is Mike DiFiore on for Umer. Two for me. Again, thanks so much for the math on how different sales scenarios could play out with respect to the CF royalty streams. Two questions for this, like why include this slide now? I mean this has been a debate forever. Is Royalty Pharma, perhaps not as confident in the integrity of these future royalty streams and the second part to that question is that in the 50% to 75% conversion scenario, you're running the scenarios at a higher sales base. How confident are you in that $13 billion estimate? And because our math implies a little bit more shortfall than the $200 million to $300 million that you're calculating. And then I have a follow-up.

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

Sure. Thanks for the question. And the reality is that we're very confident, very, very confident on our legal position and we're going to obviously do whatever it takes to stand behind the contract and the confidence we have. The reason we decided to actually lay out this as clearly as possible is because we have heard from many investors, and this goes a bit to the question that Andrew had also. What are investors missing? But we have been hearing a lot from many investors, when we talk to them in conferences or in one-on-ones that there's a lot of investors that are sort of -- they see the stock and they see it as a very attractive way of investing in life sciences. They see the current level, where it is trading now. And again, based on different metrics as a very attractive investment, but many of them remain on the sidelines because they feel that this CF situation could be an important downside or headwind.

And we just -- after hearing that over and over again, we said it seems like we need to clarify this and really make it very clear, explain how we believe that the downside is honestly very minor. And when you look at a business where we think we forecast that, we'll get to about $4.7 billion of revenue by 2030 based on our 10%-plus guidance. When you look at that swing in revenue of $200 million to $300 million, it's really, really minor on the business that should have revenues of $4.7 billion. So we thought clarifying all of this was really important. And related to your comment or question about the $13 billion, we do see that as a real possible scenario. That's why we're putting it forward. If not, we wouldn't, just based on the current dynamics in the whole CF market. But maybe Terry would want to add some additional perspective here on your question.

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

Yes. I mean I can elaborate a little bit on the $13 billion. This has been a franchise that has consistently outperformed quarter in and quarter out. Patient numbers have ended up being bigger than people thought, uptake has been really strong. And so -- and as they've continued to move to younger and younger age groups and expand geographically, the growth has been really consistently ahead of expectations. And then the last point is just Vertex themselves have talked about over 6,000 patients that have previously dropped out. We think that's sort of low-hanging fruit for this new triple. And so when you sort of add all that together, we do feel like $13 billion or more is very realistic, and that's why we put that number out there.

Operator

The next question comes from Stephen Scala with Cowen.

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

I have three questions, but they're all brief. Based on what GSK reported, Trelegy sales actually beat in Q2, yet Royalty Pharma royalties missed at least our estimate. Was there some sort of adjustment in royalties in Q2, perhaps one time? Second, this is picky, but the $200 million to $300 million delta in the worst case for the CF franchise. My recollection was that this previously was a $200 million delta. This is a modest change, but curious what changed. I assume just better-than-expected franchise growth, but please clarify.

And then lastly, Pablo, in your summary of Royalty Pharma's accomplishments since the IPO, I don't think you mentioned that you raised guidance in the majority of quarters since that IPO. As you reflect back on that time since the IPO, what have been the biggest drivers to this outperformance?

And to what extent will they inflect going forward? What's interesting is that your business really doesn't lend itself to beats and raises, yet you're pretty good at it. So just wondering what you think the drivers have been.

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

Of course, Terry, do you want to take the first two questions regarding Trelegy and then maybe also the $200 million to $300 million, and I'll come back to the last bit.

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

Yes, sure. So Steve, on Trelegy, I think, it's just a tiering issue. The royalty resets at the beginning of the year. And so the first quarter sort of sales which is second quarter royalties for us are oftentimes going to be sort of at a lower tier and that tiers up throughout the year. So to the extent that maybe some people had sort of flat rates throughout the year, that would probably explain why that looked a little off.

But we still feel really great about the Trelegy investment. It's performing really well, and it's probably just a sort of a royalty tiering issue. On the question about the $200 million to $300 million, what we said previously was a couple of hundred million dollars. We feel like that's within that range. So nothing really has changed there. I would say we tried to book end what we think as a very extreme downside scenario for Royalty Pharma when we talked about 75% and I wouldn't say that's necessarily what we believe internally. And so that might also explain a little bit why there's a difference there.

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

So related to your question about outperformance, consistent outperformance quarter after quarter of our business. The reality is that we saw that when we were private, during more than two decades, how every quarter, not every quarter, but the vast majority of quarters and certainly every year, when you looked at the forecast we had for our business and where the numbers came in, the numbers were better. And the reason for this outperformance has been very fundamental or very important for our business that we have consistently been able to invest in the top products marketed by the top companies in life sciences.

And you can look over more than two decades. We're getting close to three decades. And how in every cycle of innovation, we have been able to invest in the leading drugs that are driving great outcomes for patients and drugs that are transforming diseases and when you do that consistently, and the drugs obviously are marketed by the best companies, these drugs are the ones that outperform. Maybe when you look at a big company, that doesn't happen, but because we're able to select the top products of the top companies that -- and we have many of them, that has resulted in very significant outperformance. Another really important characteristic of our business that's super, super unique is this ability that we have to add blockbusters to our franchise every year.

And years ago, we did this analysis looking at the ability of big pharmas and big biotechs and then smaller biotechs of adding blockbusters to their businesses. And it's limited. Every three to five years, when you look at big biotechs like a Biogen or Celgene, they would add one blockbuster at a rate of like every three years, every five years, and big pharmas maybe a little bit more and lots of acquisitions.

But when you look at Royalty Pharma, we have this ability to add two, three, four blockbusters every year. And if you look back at the performance over the last two years, obviously, it's been driven by great drugs, Nurtec, for example, amazing drug now in Pfizer's hands. We talked about Trelegy, but there's many others. And I think when I look at the future of Royalty Pharma and I look at the opportunities that we have in front of us, what's so remarkable is that we have many more opportunities now and in front of us than we had 10 years ago or 15 years ago. The opportunity set is bigger. The number of products and our ability to add these blockbusters to our portfolio has increased. We're doing it more consistently. So I think as we've said this on the prior questions, what we're going to do as a team is just continue to focus on delivering great performance. Top-line growth that exceeds our guidance, bottom-line growth as well and then just continuing to add great assets to our business. And eventually, the share price will take care of itself and will reflect this very attractive business model and this very consistent performance that is very unique in life sciences.

Operator

I show no further questions at this time. I would now like to turn the call back to Pablo for closing remarks.

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

Thank you, operator. Thank you, to everyone on the call for your continued interest in Royalty Pharma. And if you have any follow-up questions, obviously, please feel free to reach out to George Grofik and our IR team. But I think I'll just finish to say that myself and the team are incredibly excited about our business, I already mentioned that. And we feel really good about our situation with CF, which we believe has been a headwind. And we just thought it was really important to clarify that now and really show the very limited downside to our business. Just when you look at that investment itself and obviously much more -- much smaller when you look at the magnitude of our business at the end of this decade. But thank you, everyone, for listening to our call.

Operator

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