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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Third Quarter 2021 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 *- RP Management LLC - Senior VP and Head of IR & Communications*

Thank you, Josh. Good morning, good afternoon to everyone on the call, and welcome to Royalty Pharma's Third Quarter Results Conference Call. You can find the slides to 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. I refer you to our 10-K on file with the SEC for a description of these risk factors. And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, founder and Chief Executive Officer; Jim Reddoch, EVP, Co-Head of Research and Investments and Chief Scientific Officer; Marshall Urist, EVP, Co-Head of Research and Investments; Terry Coyne, EVP, Chief Financial Officer.

And Pablo will discuss the key highlights, after which Jim and Marshall will provide an update on our Royalty portfolio and upcoming events. Terry will then review the financials. And after concluding remarks from Pablo, we will hold a Q&A session. Chris Hite, our Vice Chairman, will also join the Q&A. 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 financial performance and strategic execution. We delivered double-digit top- and bottom-line growth despite the end of the term for our HIV royalty. We maintained a robust and active deal pipeline.

We expect to build on our strong year-to-date momentum with transactions announced so far of $2.8 billion. We saw important progress in our development stage portfolio, with positive Phase III results for PT027 in asthma and the breakthrough designation granted by FDA and to gantenerumab in Alzheimer's.

Lastly, based on the strong business dynamics, we're again raising our guidance for Adjusted Cash Receipts for 2021. On Slide 7, you can see our financials in a little more detail. In the third quarter, we delivered 24% growth in Adjusted Cash Receipts, our top line, and 12% growth in Adjusted Cash Flow, our bottom line.

The strong momentum puts us in a tremendous position to deliver another year of strong financial performance in 2021. As Terry will speak to when he discusses our raised guidance for the current year.

Slide 8 sets our track record of impressive growth since our IPO in June 2020. I am really proud of this slide as it underscores the power of our business model. As you can see in this graphic, we have reported six consecutive quarters of double-digit bottom-line growth and very strong top-line growth as well.

I mentioned earlier the loss of our HIV royalties, which were our fourth largest source of royalties in 2020, accounting for 13% of total Royalty receipts. We have digested this impact and still delivered around 20% top- and bottom-line growth in the first 9 months of 2021.

This speaks to the strength and breadth of our existing portfolio and the momentum for our recent royalty transactions. It is also a part of what makes Royalty Pharma a unique investment in life sciences. Our impressive ability to grow through expirations and continue to diversify the portfolio with value-enhancing royalty acquisitions, truly sets us apart from other biopharma companies.

With that, I will hand over to Jim to update you on our royalty portfolio.

Jim Reddoch - *Royalty Pharma plc - Executive VP, Chief Scientific Officer and Co-Head of Research & Investments*

Thank you, Pablo, and hello, everyone. Today, Marshall and I want to spend a few minutes updating you on our development-stage portfolio before highlighting some important upcoming events.

Slide 10 lays out the significant patient and commercial potential for PT027. This is AstraZeneca's investigational asthma therapy, for which Royalty Pharma has been co-funding clinical development through Avillion since 2018. We were attracted to PT027 as is a potential first-in-class fixed-dose combination of budesonide and inhaled corticosteroid and albuterol, a short-acting beta 2 agonist.

It targets both the symptoms and the underlying inflammation in asthma. We were, therefore, delighted last month when AstraZeneca announced the 2 pivotal Phase III trials of PT027, known as DENALI and Mandala, met all the primary endpoints.

AstraZeneca plans to release detailed data at an upcoming medical meeting and regulatory filing is expected in the first half of 2022. In return for our role in funding the clinical program, Royalty Pharma is entitled to receive royalties in the low-single digits in addition to success-based milestones.

And given the scale of the addressable market as well as the unmet need for novel rescue therapies and asthma, consensus estimates project that sales for PT027 will exceed $1 billion. So this has the potential to become a meaningful new royalty stream for Royalty Pharma.

On Slide 11, including PT027, our investment in development stage therapies since 2012 is approximately $7.7 billion. Over that period, we have been very successful in backing winners especially when compared with industry benchmarks with a 79% approval rate by the number of investments -- the number of investments and a 95% approval rate by the value of our investments.

PT027 is another example of Royalty Pharma's ability sometimes years before a potential commercial launch to identify opportunities of unmet need in therapeutic areas that are overlooked or considered well served or genericized. An asthma inhaler therapies for earlier-stage patients are commonly viewed as a market segment that is satisfied by generic inhalers.

However, PT027 is a novel combination inhaler that uniquely facilitates steroid delivery to suppress inflammation at times of increased asthma symptoms to prevent subsequent exacerbations. Biohaven's Nurtec is another example where the market was set to be satisfied by existing drugs. However, the strong launch of the oral CGRP inhibitors, including Nurtec has revealed significant unmet need among people suffering from migraine.

And we look forward more opportunities like PT027 and Nurtec in the years to come. Our rigorous evaluation process is the primary reason for our high success rate. We conduct extensive due diligence, both through our experienced research and investment team internally, but also through leading external experts to gain comfort on the science and the patient need.

Our starting point is always strong clinical benefit where the need is large, but we also benefit from being agnostic to therapy area so that we can choose from the most compelling opportunities available across the industry. And a few additional successes are highlighted on the slide, including Trodelvy and more recently, Evrysdi. And today, we have a portfolio of nine development stage therapies.

So to close here, PT027 builds on our track record of successful investment in development stage therapies. And we will continue to pursue this important business stream of development-stage opportunities while maintaining an appropriate balance with royalties on approved medicines in order to optimize our overall risk return profile. And I will now turn it over to Marshall to discuss upcoming events.

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

Thanks, Jim, and good morning. Slide 13 lays out the upcoming clinical and regulatory events for our portfolio over the next 12 months or so. For the balance of 2021, we expect Phase II/III results for intranasal zavegepant in migraine. And looking to next year, 2022 is likely to be a very milestone-rich year with a number of important Phase III readouts for our portfolio.

These include Phase III results for Trodelvy in third-line HR-positive metastatic breast cancer from Cabometyx in combination with OPDIVO and YERVOY in first-line renal cell carcinoma as well as in prostate and lung cancer. Tremfya in ulcerative colitis and Crohn's, gantenerumab in Alzheimer's, otilimab in rheumatoid arthritis and seltorexant in depression.

Turning to regulatory actions. This quarter, we expect a European regulatory decision on Trodelvy and triple-negative breast cancer. In 2022, we expect a filing on PT027, as Jim mentioned earlier, and also our European regulatory decision on rimegepant in migraine where it will be marketed out of the brand named Vydura. We're pleased to see the news of a partnership between Biohaven and Pfizer to market Vydura outside of the U.S.

Pfizer will be a strong partner to maximize the reach of this new class of medicines around the world. In sum, we expect to see a number of important milestones over the next year. If positive, many of these could add significantly to the long-term outlook for our Adjusted Cash Flow.

Now before turning it over to Terry, I wanted to make a few final comments on our portfolio's Medicare exposure given the proposed U.S. drug pricing legislation reform that has been receiving significant investor attention.

While nothing has been finalized, our business in aggregate has minimal Medicare exposure across Part B and Part D. And based on the draft language, we would expect only one or two products Imbruvica and Xtandi to be in the top drugs by Medicare spending. And as a reminder, Xtandi's royalty duration is through 2027 to 2028.

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. But more importantly, this potential change to the U.S. drug pricing legislation highlights some strengths of our business model and strategy.

First, the fact that we're continually adding new product royalties to our portfolio means that we're uniquely positioned to rapidly react to any changes to the reimbursement environment in our forecast and valuations.

Second, our therapeutic area agnostic business model means that the full span of biopharma innovation is open to us without the constraints of legacy therapeutic area R&D or commercial infrastructure. Of course, we'll continue to monitor the developments in Washington and respond appropriately.

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 15. Total royalty receipts grew 21% versus the year ago period. Growth drivers in the quarter included our largest franchise, cystic fibrosis as well as Tysabri, payments from Biohaven, new royalties and a onetime milestone payment of $45 million related to Sanofi's diabetes therapy, Soliqua. These positive factors more than offset the decline in royalty receipts from our legacy HIV franchise.

As mentioned on last quarter's call, the Soliqua milestone we received this quarter was previously expected in 2022. For your modeling consideration, we would, therefore, expect the other products royalty receipts line in 2022 to be between $200 million to $250 million.

Slide 16 shows how our royalty receipts translated to strong Adjusted Cash Flow in the third quarter. As you're aware, Adjusted Cash Receipts is a key non-GAAP metric for us, which we arrive at after deducting noncontrolling interests. This amounted to $587 million in the quarter, growth of 24% compared with last year's third quarter, as Pablo noted earlier.

When we move left to right, operating and professional costs of $54 million equated to 9.1% of Adjusted Cash Receipts, consistent with the revised full year guidance I will speak to momentarily.

R&D funding remained at a low level. The major step up in net interest to $65 million reflected the semiannual interest payment associated with our $6 billion unsecured note offering in 2020. As a reminder, these payments are paid in the first and third quarters.

The other line was $27 million, which largely -- which was largely attributable to a $16 million onetime cash payment related to our bond offering in July. Adjusted Cash Flow, our bottom line earnings was $441 million or $0.73 per share. This translates to an Adjusted Cash Flow margin of 75.2%.

Given that the quarter included the semiannual interest payment, which was equivalent to around 11% of Adjusted Cash Receipts and the onetime bond payment, this margin underscores the strong cash conversion in our business model. On Slide 17, we continue to maintain our financial firepower despite the $2.3 billion of capital deployed on royalty acquisitions year-to-date.

At the end of September, we had $2 billion of cash and marketable securities, similar to our position at the end of 2020. Major cash inflows over the nine months included Adjusted Cash Flow of $1.3 billion plus the $1.3 billion of net proceeds from our innovative debt financing in July. As a reminder, this bond issuance included a $600 million social bond which reflects our commitment to ESG and corporate social responsibility, which we discussed on last quarter's call.

These combined inflows of $2.6 billion were broadly offset by the capital we deployed on royalty acquisitions and the dividends and distributions, hence the limited change over the period on a net basis. We currently have $7.3 billion of investment-grade debt with leverage of 2.7x EBITDA on a net basis and 3.76x EBITDA on a total basis and a weighted average debt coupon of 2.24%.

Our $1.5 billion revolving credit facility is untapped, which in addition to cash on hand, gives us a strong liquidity position, making us very well positioned to execute on our business plan. My final slide sets out our raised full-year 2021 guidance. We now expect Adjusted Cash Receipts to be in the range of $2.11 billion to $2.13 billion, an increase of approximately $20 million at the midpoint of our previous guidance.

The increase in our guidance is driven by strong underlying performance of our portfolio. Our new Adjusted Cash Receipts guidance represents growth of between 17% and 18%, over the $1.8 billion we delivered in 2020. Turning to operating costs. We now expect these to be approximately 9% of Adjusted Cash Receipts, which is at the low end of our previous guidance for between 9% and 10%. This guidance implies a step-up in costs at this line in the fourth quarter due to the timing of various expenses.

Net interest paid for the year is still expected to be around $130 million. But you should note, we expect net interest paid in 2022 to increase to around $170 million following the bond offering in July that I just discussed. In line with our established practice, this guidance is based on our portfolio as of today and does not take into account any future acquisitions.

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

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

Thanks, Terry. Let me close by first reiterating how delighted I am with how our business has progressed in 2021 and by secondly, inviting you to our inaugural Investor Day in the Spring of 2022.

We're very excited by the opportunity to engage with investors to lay out why we're so excited about the future growth prospects for the business. We plan to include additional discussion of the outlook for royalty funding in life sciences innovation, our updated capital deployment objectives and long-term growth targets.

And of course, you will have plenty of opportunity to ask questions and interact with management. We very much hope that we can hold our Investor Day in person, but we will, of course, be guided by the pandemic backdrop as we want all participants to feel comfortable and above all safe. Whether in person or virtual, I am confident we will have a compelling presentation, and I hope as many of you as possible will be able to join us on the day. We'll follow up with additional details and a specific date as we're closer to the event.

With that, I would like to open the call for questions. Back to you, George.

George Grofik - *RP Management LLC - Senior VP and Head of IR & Communications*

Thank you, Pablo. And Josh will now open up the call to questions. If you could please take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Schott with JPMorgan.

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

I guess my first question was for Pablo or Terry. CF has obviously emerged as a controversy in the story. And you've talked about the ability to significantly diversify your business away from any potential risk that may emerge here over the next kind of 5 or 10 years.

Can you maybe just elaborate a bit more on the framework that you're thinking about, about how quickly the company can diversify its business about your capital deployment rates, et cetera? And maybe as part of that, I think you've talked about every billion of capital deployed translating to about $170 million of Adjusted Cash Receipts five years later. I think that was based on deals over the past few years. Is that a decent lens to think about as we think about how quickly capital deployment could translate to Adjusted Cash Receipts going forward? Or are the type of deals that you're looking at now having either different payoff time lines or just different profiles than what we've been thinking about in the past?

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

Chris, thanks for your question. And let me make some initial remarks, and Terry can take over. I'll talk a bit more specifically about cystic fibrosis. So I think the calculation we made about $170 million of cash receipts five years out per $1 billion is actually pretty reasonable.

We've looked at many periods and the amount of capital invested over different periods of time. And there is a range, but I think it's a fairly reasonable and also conservative number that you could use to model out what happens with our capital deployment.

Now the other comment to make is that we actually have been doing really well when you look at investments every year, every quarter and capital deployed. And as you have seen by following us, we had initially guided to $1.5 billion of capital deployed per year, about $7 billion over five years after our IPO. And if you just look at the last three years, and we deployed $2.3 billion in 2019, $2.4 billion in 2020, which was the year of our IPO last year.

And this year, so far, we're at $2.8 billion. So we're obviously exceeding in a meaningful way, the $1.5 billion of capital deployed. We're obviously in excess of $2 billion per year, and this year, $2.8 billion. So we're very excited about the way the business has progressed.

We're now very close to -- I mean, we're over $5 billion of capital deployed towards that $7 billion goal and $5 billion deployed in a matter of sort of 18 months or so. So I think -- and we also have a very, very broad, rich exciting pipeline ahead of us. And just the tailwinds that exist in this industry are so strong.

But I think we feel very confident of delivering on our guidance and expectations that investors have. So I think this going to happen. There's no question that deploying this amount of capital per year is going to make the reliance on cystic fibrosis royalties much lower -- much, much lower than what it is now.

And that's going to happen fairly quickly. If you just look out in three years, five years, it's going to start to diminish. And we're adding, as you know, really exciting products with very interesting growth dynamics and really top of peer product market by some of the strongest companies in life sciences. So it's diversification with very high-quality, very exciting products. But Terry, why don't you add some additional comments about?

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

Yes, sure. Thanks, Chris. It's a good question. So I think, first off, we saw the data that was disclosed by Vertex a few months ago. And we think it's difficult to draw too many conclusions on a Phase II study with relatively low patient numbers where the full data hasn't been presented.

But based on the top-line data, there was nothing we saw that suggests the efficacy of Vertex's new triple is superior to Trikafta. We also believe that deuterated Kalydeco is simply Kalydeco and it should be royalty-bearing at the same rate as KALYDECO.

If that's the case, our royalty on the new Vertex triple where the deuterated Kalydeco and tezacaftor components are royalty bearing would be 8%. And this isn't much different than our royalty on Trikafta, which is a little over 9%. But hypothetically speaking, even if deuterated Kalydeco is not royalty-bearing and only the tezacaftor portion is royalty-bearing. Our royalty on the new Vertex triple would be 4%.

We continue to believe that even if a new triple is approved, Trikafta will play a significant role in the treatment of CF over the long term, given the impressive long-term safety and efficacy it's achieved. Remember, many CF patients take 30 to 50 pills per day for their disease.

So it's not clear how important a potential once-daily option will really be without a material improvement in efficacy especially when considering the long experience patients will have had with Trikafta. That being said, we recognize that there's potential for Vertex's new triple to capture share of the market in the back half of the decade and we appreciate that investors want to understand the risk to our Adjusted Cash Receipts under downside scenarios.

So we estimate that if the new Vertex Triple is approved and only the tezacaftor component of the new Triple is royalty-bearing. Our Adjusted Cash Receipts towards the end of the decade could be reduced by a couple of hundred million dollars per year versus what they would have been if all components of the new triple were royalty bearing.

So to put this into context, our Adjusted Cash Receipts this year are estimated to be in the range of $2.11 billion to $2.13 billion. As Pablo just mentioned, we're investing billions of dollars per year, adding dozens of products to the portfolio every five years, many of which will be blockbusters.

We have product that face loss of exclusivity or lose market share to competitors every year. And that is actually, I think, a great example. This year, our HIV royalty expired and our Adjusted Cash Receipts from HIV are expected to decline by nearly $150 million in 2021, and we're still expected to grow total Adjusted Cash Receipts by 18% at the midpoint of our guidance. This really highlights the resilience of our business model, and we continue to believe that Royalty Pharma is uniquely positioned to overcome these risks.

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

So Chris, I think the comments Terry made were excellent and important for investors to really understand well. And then think of things like a potential loss of a patent, HIV, $150 million of revenue and how strong the performance has been this year sailing through that expiration and still delivering high double-digit growth in our business. And this is something that I've seen over and over again over two decades.

We lost our rituxan patent, no issue. And we lost many other patents, Humira, which was a big one, and we just sailed through that. So I think the business has this incredible resilience that's very unique that few businesses have in life sciences, combined with very, very strong predictable growth, and I'll stop there.

Operator

Our next question comes from Andrew Baum with Citi.

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

A couple of questions. Firstly, you commented on Vertex Triple. Perhaps you could comment on any thoughts you have on AbbVie's portfolio. I take the positive data problematic, but it will still be interesting. And then Second, could you talk about whether you are seeing any increased competition pushing up asset prices for some of the more attractive royalty deals? Maybe you could talk to MorphoSys. I know that Blackstone is building a presence in that area with (inaudible), and they certainly have the balance sheet to compete. But more broadly, what are you seeing? Is there any near-term risk is just the opportunities available, so broad that there's more than room for one.

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

Yes, I'll ask Terry to again comment on the AbbVie question. But with regards to your question about competition, this is a topic that has been in people's minds, the investors' mind, again, for two decades. And when we were private, it was our private investors. And now that we're public, it's our public investors.

And what's been really great to see is how competition comes and goes, and it's been of all kinds and flavors. Many investors have joined or tried to enter the market ended up exiting and there's been many of them. And I think -- there's obviously new competitors and strong competitors,

but I think we have some incredibly unique attributes that make us very unique and very strong. The low cost of capital that we have with debt that we are able to borrow at a fixed rate of 2%, the ability of us to invest billions of dollars in unapproved products taking single product risk of $300 million, $400 million, $500 million and not really being concerned with that because of the scale, the size of our portfolio, the fact that we generate $2 billion plus of revenue per year that's growing with a very strong 90% EBITDA margin allows us to take risks where very few can.

And I would also just like to remind you that from an overall cost of capital, we think our cost of capital is somewhere in the 5% to 7% range. We also have a structure where we are very tax efficient, as you know, which makes us very competitive. And many of the other entrants in the market when they're structured as private equity funds and are asking investors to give them capital that's going to be -- and this is important, capital that's going to be locked up for three, five, seven years with no liquidity, those investors will not invest if the people are raising the money in a fund are not promising teen mid- and high-teens returns.

People don't give you money if you cannot deliver teens returns. If there's no liquidity and if the money is locked up for some period of time. So as you know, one thing that we told repeatedly investors is that for many of the really attractive high-quality royalties in approved products to be able to complete a transaction and have the seller of the royalty that can be a company, a university, a hospital, really be willing to sell the asset, you have to buy it at high single-digit, low double-digit returns, which we can very easily get to and still have very attractive returns because when we lever that high single-digit, low double-digit return, we're now in the high teens, even 20 IRRs levered, very predictably, very stable.

But we can do that because of our cost of capital, someone with a fund, having promised investors teens returns, it's super difficult for them to be able to buy a royalty at high single digit, low double digit and still deliver attractive return to their investors. Given what they promised as returns and given the lack of leverage, low cost leverage. So we have a lot of really strong -- and also other things that are intangible, the network we have of relationships, the team we have, which has worked together very cohesively for more than a decade and so on. So I'll stop there and maybe Terry can add some comments about AbbVie.

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

Yes. So certainly something that we're following. At this point, it's just tough to say. We haven't seen any data. I think just to sort of go back to the point I made earlier, Trikafta has been transformative for many patients with CF. So we think it sets a really high bar. We'll be interested to see the data that hopefully they disclose in the beginning, I guess, of 2022.

But we think that Trikafta will continue to play a very important role in the treatment of CF over the long term

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Operator

Your next question comes from Greg Fraser with Truist Securities.

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

I want to follow up on the diversification question. Where would you say the bigger disconnect is between street thinking and your plan? Is it the growth potential of the current portfolio or your ability to significantly expand the portfolio over the next few years?

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

I think growth is definitely an area where I think investors and analysts have not appreciated the ability of Royalty Pharma to deliver consistent, predictable, high growth, which is very unique. In Life Sciences, there's really not many businesses that have this characteristic.

We have growth that is attractive and has three very interesting attributes. One is the high level of growth. The diversity of growth, again, very unique. So our growth is not reliant on one or two drugs, which is what you often see with biotech companies that are launching a product. And yes, they will experience high growth, but it's all reliant on one or two products.

And even big companies, I mean we've seen situations where in PD-1, for example, there were expectations that one of the PD-1s was going to be much bigger than the other. That didn't pan out. And obviously, it hurts the growth of the company that had that drug. And again, that played out over the last five, seven years, but -- and really shows how even some of the big companies are relying on one, two, three, four drugs to drive the growth and obviously also very reliant on a few drugs to drive profitability because they have obviously, lower margin.

In our case, because our growth is derived from a very broad portfolio, well-diversified portfolio, it's much more predictable. And also our bottom line is much more predictable for the same reason because of our 90% margin. But then the other thing that's very unique with Royalty Pharma is the duration of growth.

We have a portfolio that has 15 years of winter average duration when you weigh our revenues by patent expiration, which is very, very unique many companies, big companies have winter average durations of six, eight, nine, ten years, but it's rare to see a duration as long as ours.

So there's no question that I think growth is an element that is not well understood appreciated. And then the ability for us to deploy capital consistently and continue to add blockbusters to our portfolio. And in our road show, we had a few slides that really showed how we have 22 blockbusters in our portfolio, which is 3x as many as any of the big pharma and seven products that have revenues of $3 billion or more which, again, is about 3x the number of drugs that sell $3 billion or more that the typical big pharma has.

And again, what's interesting is that because of our openness -- the openness of our business model, where we're not constrained by therapeutic classes or also sales force in one or two therapeutic classes or five therapeutic classes and clinical infrastructure, clinical groups and teams in a few therapeutic classes. We can really look at the entire life sciences landscape and deploy capital and add blockbusters at a much faster rate than many of the big companies can develop them.

So it's a very unique business. And I think one way to think about it is that we really have, if you think of Royalty Pharma, the entire life sciences, R&D, infrastructure and landscape that is constantly developing new drugs for us to actually either finance them and create a royalty or acquire a royalty that exists on a product that is already developed or actually could also be developed, right? But we have the entire R&D landscape of the entire industry where we can actually deploy capital again.

So that's very unique, and I think investors have really not well understood that. And it's what drives -- has driven the success of Royalty Pharma that very strong growth over extended period of time.

Operator

Our next question comes from Steve Scala with Cowen.

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

I have a few questions, so all focused on your upside opportunities. So first, how will Royalty Pharma benefit from the AbbVie Imbruvica patent decision and potential extension if it stands? And if you could provide any quantification of the benefit, that would be helpful.

Similarly, how do you think about Pfizer's partnership with Biohaven for ex-US rights to Nurtec as far as impact on your business. Again, any high-level quantification would be helpful. And then lastly, with gantenerumab looking to have even bigger potential as time goes on, I'd like to get a few points clarified. First, are your rights to the asset global? And secondly, is the royalty the same, whether the sales are in gantenerumab or gantenerumab shuttle?

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

Yes. I think Marshall is ideal to answer the last two questions or even the first one. So go ahead, Marshall.

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

Yes, Steve, thanks for the question. So I was trying to write them down as you were going through. So first one on the Imbruvica on the Imbruvica patent news. So the first point there, just to level set for everyone is that we had previously expected our Imbruvica royalty to expire between 2027 and 2029.

And then we recently got the news about the court decision that upheld some of AbbVie's Imbruvica patents. And now AbbVie has publicly disclosed that they don't expect generic entry in the U.S. until March 30, 2032. And so our position is that we are entitled to royalties on Imbruvica in the U.S. until 2032.

So hard to quantify that necessarily at this point, but I think you can kind of look at your model and the forecast and think about what that might mean for the model. So I hope that's helpful. I think your second question was on the Pfizer Biohaven relationship. And our perspective on this is certainly driven by a long history of seeing products play out over years and years and really appreciating what the global opportunity for medicines can be and oftentimes, that's even bigger than what's in the U.S.

But it certainly takes companies with very broad, deep infrastructure in multiple companies to get the drug out there to as many patients in countries as possible. And I think we can't think of a better partner for Biohaven to help make that happen than Pfizer. And so we were very happy to see the news. And I think as we think about the impact on our business, certainly, our royalties are global on that. And so it can't help but enhance the value of our ex U.S. portion of the royalties on Nurtec and whatever else may come from the -- from that collaboration.

So then the third question was on gantenerumab. And so I think there -- the first question is just very simply, is our royalty on worldwide sales. And the answer to that is, yes. And then on the shuttle. So on the shuttle, we haven't gotten into specific details as to exactly how that works beyond to say that, yes, the -- that the shuttle is royalty bearing to Royalty Pharma. Still early. It sounds like Roche's done -- sounds like Roche is moving it along, which is great, and we'll look forward to further developments there.

Operator

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

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

I've two, and mostly just on strategy and the business model. So the first one, there are some technologies or therapeutic areas that have evolved rather quickly. COVID is an example of this. I guess a question for -- maybe for Marshall is how has your diligence process evolved to become a little bit more nimble? And is there an increased focus on some of these fast track opportunities in biopharma?

And the second one, maybe for Pablo, just to follow up to the competition. When you look at PT027, I mean it's more of a formulation play than let's say, a novel mechanism. And as you look across all the high impact opportunities in biopharma many being earlier in higher risk, what are your thoughts of investments in health care that are outside of the therapeutics realm?

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

Marshall, do you want to take the first question?

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

Sure. So I think there are two -- Geoff, thanks for the question. So I think there's two aspects to your question. The first is how are we thinking about opportunities that can kind of gather momentum quickly like COVID -- like COVID had either on the therapeutic side or on the vaccine side. And so there's two aspects to that.

I think the first is our approach to these things is very consistent with how we've always looked at things in the past, which is, does this make sense? Do we -- is this meaningful science for patients and does it check that box?

And second, do we think there is an attractive long-term opportunity that would be value-enhancing to our portfolio? And I think we treat things no matter the velocity of how quickly they develop in the same way from that perspective.

The second part of your -- the second aspect for your question is a good one, too, which is how do we structure our team and our diligence approach to be able to handle those opportunities if they do come fast and it's not something that we can see coming kind of miles away.

And so that's a good question, and we have been thinking a lot about that. And I think we are evolving to be able to move quickly by the internal resources that we've been adding like the strategy and analytics team that we've talked a lot about in the past.

And then also just continuing to expand and deepen our external network that Pablo mentioned as well. So I think we're in good stead whether or not they are kind of a slow developing new part of the therapeutics landscape or something that happens quickly.

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

Geoff, maybe just to add to the answer that Marshall provided, there's really no restriction as to what we can do. I mean we've looked in the past of devices and all sorts of technologies that produce royalties, not only therapeutics. And sometimes it could be not -- as you know, patents are issued on many things, not only like a composition of matter patent on a drug, but many other things and they give rise to royalty.

So we're very open-minded about anything that could result in a percentage of revenue, the royalty and have looked at so many different things over the years. But I think -- and an example of that is like the collaboration we did with MSCI where at the end, indices are going to be created, and we've made great progress with MSCI on that and to start to launch some of the things in the very near term -- in the next few months.

But at the end, that's going to generate revenues tied to assets under management, investment in life sciences, which will grow for many decades. But anyway, the other comment I would make is that if there's anybody that can move quickly, very quickly to react to opportunities, it's us, and we can do it because we have a team that is constantly talking to companies and just reacting very quickly to opportunities.

In many cases, we have models built up already where there's a product that is of interest. We have a model for solid tumors where we cover every solid tumor and all of the drugs that are in the market today, drugs that are being developed. And we have a view on those drugs.

So if an opportunity comes to us, we can react very, very quickly. But the other thing that is very, very unique and talking about things that are underappreciated by investors is that if a company -- think of a company like Biogen, that's in MS and Alzheimer's or think about a company like Celgene that was in hematology and inflammation. If a company like that wants to get into a new therapeutic area, it can take them five to ten years. They can make -- and to make an acquisition and get into a therapeutic area. But even that takes time. Obviously, M&A is complicated, very competitive.

There are a few assets that are attractive for big companies. And obviously, there's issues now with antitrust that is making M&A for big companies, difficult. That's why we're so excited about M&A in mid-cap companies. But leaving aside M&A, if a company wants to diversify and get into a new therapeutic area, they have to create -- they have to buy an asset, they have to create a clinical development team. They have to invest years in clinical trials. They have to then launch it. It can take five to ten years.

In our case, if there are interesting areas for us to invest in, we can so quickly, if there's a royalty that we're interested in on an approved product that is already generating cash flow, we can have discussions with the holder and potentially acquire it. If there's a product that's in development that we're interested in the new therapeutic area, we can go and see we can finance that product and create our royalty, and we end up having an investment in that area in a matter of months, weeks, some going to take a year because or more because we're following things all the time.

And then at the right moment, we decide to make a move, and we can have an investment very quickly. But the point is that it allows us -- the openness of the business model and the lack of constraint, like therapeutic constraints, therapeutic biases allows us really make investments in the new areas that are exciting with great ease, much more than any company.

And that's what this business model is so attractive as a way for investors really get exposure to this incredible innovation that's occurring in life sciences and in many cases, in the most exciting new areas. We were not-- look at the investments we made over the recent years and some of the new gene therapies. And it was easy for us and quick. But anyway, Chris Hite, maybe you want to add some additional comments to this given your perspective of decades helping companies in life sciences?

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

Sure. Thanks, Pablo, and thanks for the question, Geoff. I think Pablo covered a lot of that. I think there is -- the one thing that we really have started to really look at is the total addressable market. And the cumulative R&D spend of the sector over the next decade is roughly over $2 trillion.

And we look at that as just a huge opportunity to get involved and whether it's new technology as you highlight, new opportunities, synthetic royalties, given how fractured the R&D environment is in the sector, the actual new royalties that will be created through that spend. We just look at this as a tremendous opportunity in the therapeutic space. But if there's other royalties that exist outside of that, we're not necessarily opposed to that either.

Operator

Our next question comes from Umer Raffat with Evercore.

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

I have two, if I may, perhaps first on M&A side. It looks like you've been fairly quiet since the MorphoSys deal announcement in June. And I wonder if we should perceive that as a sign of perhaps something bigger that's in the works. I'd be very curious. And then secondly, on the sort of big catalyst on your pipeline heading into next year, gantenerumab Phase III, assuming Phase III goes well, do you expect this to be a multibillion dollar product?

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

Good to hear you, Umer, and interesting question about MorphoSys. So I think an M&A in general, I think -- what I told investors is that there's -- and Chris just mentioned $2 trillion of investment in R&D in life sciences over the next decade.

It's -- and it's going to be about $1 trillion over the next five years. The industry, when you look at how much is spent, it's about $300 billion per year, $200 billion by Biotech and large pharma, big pharma globally and another $100 billion by government. I'm sorry, governments, NIH and foundations.

And so it's an incredible number. I mean when you look at many, many other industries around the planet, they invest in the tens of billions of dollars per year in R&D. One of the few industries that invest at a scale of hundreds of millions of dollars in R&D per year is life sciences.

And we're at the middle of this. Royalty Pharma is becoming the partner of choice to help companies fund part of that investment. So it's obviously a huge opportunity. But -- so that sort of the more conventional deals that we're doing every quarter every year, probably will have us invest more than $1.5 billion, probably more than $2 billion per year.

And then the ones that are going to be difficult to predict is M&A transactions. And are we going to have one or two per year or one or two every two or three years? It's hard to tell. But the reality is that one interesting new thing that we're realizing could become a really important driver of opportunity for us is mid-cap M&A like what happened with MorphoSys. And that is going to add to the more conventional deals that we're able to do every year.

And I think -- there are some big things out there. Now for those things to really happen the stars have to align, there has to be a deal where two companies want to transact. And we are then able to potentially partner with one of them to help them. So there are difficult transactions to be honest, but it's things where we have experience, and we've been successful. And I think it's something that I spent personally a lot of time looking at because that's where I think we will have also very, very attractive opportunities in front of us. And I guess that was -- was there another question? Sorry, I missed the other question. Maybe what gantenerumab.

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

My question was around your expectation for gantenerumab commercial opportunity if the trial holds?

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

Marshall?

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

Absolutely. Umer, on gantenerumab, so like we mentioned in the script, we're really excited now to have this as part of the portfolio post the MorphoSys deal and are looking forward to the data next year. And to answer your question, yes, our thesis has been that anti-amyloid product in this class that has a very consistent data set and shows clear efficacy and safety and is supported by a big global company and has really attractive subcu dosing profile like gantenerumab and it checks all those boxes certainly has the potential to be a multibillion-dollar product.

Like we've mentioned in the past, we always look at a ton of scenarios whenever we bring anything into the portfolio, but certainly, this is one that can support multi-blockbuster potential.

George Grofik - *RP Management LLC - Senior VP and Head of IR & Communications*

Operator, we have time for 1 last question.

Operator

Your last question comes from Matthew Harrison with Morgan Stanley.

Chen Yuan Yang - *Morgan Stanley, Research Division - Research Associate*

This is Charlie Yang on for Matthew. Just two, I guess, a follow-up question. I think one, can you just talk about maybe just Alzheimer's dynamics a little bit at a high level given how Biogen launched and how that could impact your view in terms of the royalties there? And then second, maybe if you can just discuss a little bit about the cystic fibrosis, arbitration procedure if it gets to that step?

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

Jim, would you mind taking the question on gantenerumab and then maybe Terry can also talk about potential arbitration with respect to CF.

Jim Reddoch - *Royalty Pharma plc - Executive VP, Chief Scientific Officer and Co-Head of Research & Investments*

Sure. I'm just -- yes. Sorry, I had to recall the question. So I mean, Biogen has had a slower-than-expected rollout it's maybe not that big of a surprise because it has had its reimbursement issues in its rollout and came to market with sort of efficacy package that was kind of viewed by practitioners and payers as being suboptimal.

So we're hopeful that the product that we're invested in gantenerumab is going to come to market with a differentiated profile and one that shows compelling efficacy and some real kind of improvements over what that product is showing. So I wouldn't view what Biogen's experience has been as what is possible with a quality product in Alzheimer's, which is still a huge unmet need. And I think there is a possibility that amyloid acting antibody really could be valuable to patients if developed directly and has good data.

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

I mean -- maybe I'll add something -- I'll add just very quickly. I mean there's a huge unmet medical need, as you know, really, I mean, one of the biggest in the world. And the patients need a drug that works and a drug that has the characteristics of gantenerumab. So we're very excited about having that in our portfolio because it could become best-in-class and it could become one of the biggest drugs if the profile holds, it could be one of the biggest drugs in health care. So it's really exciting to have that in our portfolio. But go ahead, Marshall, sorry, go ahead, Terry.

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

Yes, this is Terry. I'm going to address the CF question. So there is a dispute resolution mechanism in the contract. But at this point, it's really not appropriate for us to discuss any legal strategy.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back over to Pablo for any further remarks.

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

Thank you, operator, and thank you to everyone on the call for your continued interest in Royalty Pharma. My team and I look forward to continuing to share our progress with you. If you have any follow-up questions, please feel free to reach out to George and our Investor Relations team. Thank you very much. Goodbye.

Operator

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