REFINITIV STREETEVENTS

EDITED TRANSCRIPT

RPRX.OQ - Q4 2022 Royalty Pharma PLC Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2023 / 1:00PM GMT

OVERVIEW:

Co. reported 4Q22 results.

REFINITIV

CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Hardik Parikh *J.P. Morgan Securities LLC, Research Division - Security Analyst*

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

Susan Chor *Bank of America Global Research, Research Division - Associate Analyst*

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Royalty Pharma Fourth Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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 Fourth Quarter and Full Year 2022 results. You can find the press release with our earnings results and 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 from these statements. I refer you to our 10-K on file with the SEC for a description of these risks.

All forward-looking statements are based on information currently available to Royalty Pharma, and we assume no obligation to update any such forward-looking statements. Non-GAAP financial measures will be used to help you understand our financial performance. The GAAP to non-GAAP reconciliations are provided in the earnings press release available on our website.

And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, founder and Chief Executive Officer; Chris Hite, EVP, Vice Chairman; Marshall Urist, EVP, Head of Research and Investments; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights, and Chris will discuss trends in our transaction pipeline. 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.

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 year of strong execution on our strategy as a leading funder of Innovation and Life Sciences.

Slide 6 summarizes our financial and portfolio achievements in 2022, which underscore our strong momentum and the power of our business model. First, we delivered a strong financial performance. Adjusted Cash Receipts, our top line grew by 10%, Adjusted EBITDA by 10% and Adjusted Cash Flow by 15%, which are all prior to an accelerated Biohaven redemption payment we received in the quarter, which I will discuss on the next slide. Our reported growth, of course, was significantly higher as a result of this Biohaven payment. Second, we strengthened our royalty portfolio. We added six new therapies, including the blockbuster Trelegy, and we expanded our development-stage pipeline through the acquisition of several attractive therapies such as Cytokinetics' Aficamten and Amgen's Olpasiran.

We also entered into a novel R&D funding collaboration with Merck, which could form the blueprint for future deals with large biopharma. Meanwhile, Pfizer's acquisition of Biohaven resulted in accelerated value creation to Royalty Pharma. Third, we had another strong year of capital deployment, building off of the momentum since our IPO. We announced up to $3.5 billion in transactions, maintaining our leading share of the royalty funding market. And given the rapid expanding opportunity set, at our Investor Day last May, we raised our capital deployment goal to $10 billion to $12 billion over the next five years.

On Slide 7, you can see our financials in a little more detail. We received an accelerated Biohaven redemption payment resulting from Pfizer's acquisition of Biohaven, which benefited Adjusted Cash Receipts by $458 million. Prior to this payment, as just mentioned, we delivered 12% growth in our top line in the quarter and 10% for the full year. Foreign exchange continued to represent a headwind impacting our top line by around 5% for the quarter and 3% to 4% for the full year. Including the Biohaven payment, our top line nearly doubled in the quarter.

Consistent with our top line, we grew our Adjusted EBITDA by 13% in the quarter and by 10% for the full year prior to the Biohaven 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 35% in the quarter and by 15% for the full year prior to the Biohaven payment. The substantial increase in our fourth quarter partially reflected lower upfront development-stage payments when compared to the prior period.

Slide 8 shows our impressive track record of strong top-line growth since our IPO in June 2020. This reflects our ability to execute successfully against our strategy. Slide 9 digs deeper into our top-line performance in 2022 to show the various moving parts. Royalty expiries and foreign exchange represented a significant headwind to our growth in 2022. Despite this, the strong performance of our base business and the acquisition of Trelegy royalties, allowed us to deliver approximately 10% top-line growth before taking into account the accelerated Biohaven payment.

We have absorbed significant losses of exclusivity over the past two years and still delivered top-line growth in the double digits. This speaks to the unique power of our business model to replenish the portfolio and to drive compounding growth. My final slide expands on this critical point. Slide 10 shows that since 2020, we have announced approximately $10 billion in transactions across close to 20 deals and acquired Royalty interests in some of the most transformative therapies in the industry. Roughly 70% of our capital deployed since 2020 has been on approved therapies and 30% on development-stage products. These new royalties already account for around [30%] (corrected by company after the call) of our Adjusted Cash Receipts. By 2025, they are expected to add around $1 billion to our top line. Put simply, we have replenished a significant portion of our business over a five-year period and at the same time, sustained double-digit growth. Very few companies in the life sciences industry have the ability to do this.

With that, I will hand it over to Chris to update you on our transaction pipeline.

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

Thanks, Pablo. Let's move to Slide 12. The strong momentum in our business is underpinned by encouraging trends in the royalty market as well as the fact that royalties are becoming a mainstream tool to fund innovation. Between 2015 and 2022, the number of royalty funding transactions increased more than sixfold to 27 deals while the dollar value of transactions rose tenfold to $6.2 billion. Over that period, Royalty Pharma has maintained the leading share of the royalty market.

In 2022, we accounted for more than half the dollar value of transactions and over 1/4 of transaction volume, and we remain the clear leader in larger transactions.

Slide 13 details the funnel of opportunities we saw in 2022. We reviewed more than 350 potential transactions. This resulted in a 106 confidentiality agreements signed, 70 in-depth reviews and 38 proposals submitted. Our disciplined and highly selective approach resulted in us executing nine transactions across six new therapies or just 3% of our initial reviews. This is consistent with our historical average in the low single-digit percentage range and reflects the exceptionally high bar we apply to royalty funding opportunities.

Slide 14 shows the growth in our pipeline opportunity set. Between 2019 and 2022, we saw a 75% increase in initial reviews and in-depth reviews and the value of the transactions we executed on increased by 58%. Clearly, the difficult equity market for biotechs in 2022 helped us. However, we have seen positive market trends for a number of years as royalty funding has become an increasingly mainstream funding modality. This supports our confidence in meeting our raised five year capital deployment target that Pablo mentioned.

And with that, I will hand it over to Marshall.

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

Thanks, Chris. On the next few slides, I want to discuss two recent transactions that brought us two exciting opportunities in the lipoprotein(a) or Lp(a) class of cardiovascular medicines. Last month, we were pleased to announce a win-win partnership with Ionis. We acquired royalties on Spinraza, a blockbuster for spinal muscular atrophy and pelacarsen, an exciting development-stage Lp(a) therapy for cardiovascular disease. Through this collaboration, we deployed $500 million upfront and committed up to $625 million in potential milestones. The unique deal structure provides an attractive risk reward for Royalty Pharma.

Our interest in Spinraza, a blockbuster medicine approved in more than 60 countries with 2022 sales of $1.8 billion supports the investment with a lower risk royalty. However, the really exciting part of the deal is the significant upside potential from pelacarsen, which Novartis has projected to have greater than $3 billion in peak sales potential. Pelacarsen is the most advanced of the two leading clinical stage compounds in the Lp(a) class with Phase 3 cardiovascular outcomes data expected in 2025.

On Slide 17, I want to highlight that we also acquired royalties to the other exciting investigational therapy in the Lp(a) class, Amgen's olpasiran. We acquired this royalty from Arrowhead Pharmaceuticals in November 2022 in exchange for a $250 million upfront payment and potential milestones of up to $160 million. The Phase 2 clinical data on olpasiran is very encouraging. And as with pelacarsen, a Phase 3 outcome study is underway, and this study is expected to complete in late 2026. Consensus expectations are that this new class of cardiovascular therapies will generate more than $4 billion of sales by the early part of the next decade, and there are many reasons to believe that these estimates could prove conservative.

Slide 18 returns to our concept from our Investor Day last May. From a strategic perspective, the Lp(a) class exhibits two of our key investment themes. The first one is the idea of under-innovated large markets. The shift towards specialty markets over the last decade with smaller patient population and higher price points has meant that some of the incredible innovation that we've seen has not been applied to the same extent in some of the larger markets that are higher volume but that still have significant unmet patient need. Cardiology is a great example of this, and the Lp(a) class has transformative potential. In addition, we have seen that targeted therapies can drive significant patient benefit in cancer. However, there has been comparatively less development of targeted therapies in therapeutic areas outside of oncology.

So this is another theme that we're excited about. We think there's significant potential for patients to benefit from targeted therapies in areas such as cardiology, given the increased understanding of mechanistic drivers of disease. Our Cytokinetics partnership is a good example as well. So why does Royalty Pharma believe in the transformative potential and in the multi-blockbuster opportunity for this class? First, Lp(a) is an independent cardiovascular risk factor, supported by extensive data from genetic studies among other sources of evidence. Second, there is a huge unmet need. Over eight million people worldwide have elevated Lp(a) in cardiovascular disease, and these people face a more than twofold increased risk of cardiovascular events. Importantly, Lp(a) cannot be addressed by dietary modification or approved lipid-lowering drugs.

Third, both pelacarsen and olpasiran have been shown in Phase 2 studies to produce robust reductions in Lp(a) with encouraging safety profile. And lastly, there are two well-designed outcome studies enrolling more than 14,000 people, which are expected to read out around the middle of the decade, supported by two of the strongest cardiovascular medicine companies in Amgen and Novartis. Taken together, we believe that Lp(a) reduction could represent one of the next major frontiers in the treatment of cardiovascular disease and be a potentially important growth driver for Royalty Pharma towards the end of this decade and beyond 2030.

On the next slide, I want to highlight Royalty Pharma's unique ability to invest in multiple products in a given therapeutic area. We have historically demonstrated this in multiple sclerosis, prostate cancer, migraine and in the anti-TNF category. As a result of our Arrowhead and Ionis deals, we now have royalties on two important medicines for spinal muscular atrophy as well as two leading investigational Lp(a) therapies. This unique ability to invest in multiple products in the most innovative therapeutic classes is clearly a differentiating feature of our business model.

Moving to Slide 21. AstraZeneca's Airsupra, formerly PT027, was just approved by the FDA last month for the treatment of asthma. This is a first-in-class fixed-dose combination therapy that treats both the symptoms and underlying inflammation of asthma. This is another example of how our development-stage portfolio can make important contributions to our business. We're entitled to a low single-digit tiered royalty on annual U.S. net sales, success-based milestones and other potential payments. The market size is significant. In the U.S. alone, there are more than 25 million asthma patients and 71 million rescue inhalers used annually. The consensus currently projects Airsupra to approach $1 billion in sales by 2030.

On Slide 22, if we look at the early performance of our transaction since 2020, the picture is encouraging. For the approved therapies we recently acquired, the majority have seen increases to street consensus sales forecast since the acquisition date with several increasing by more than 40%. Although we, of course, invest based on internal forecasts, and we do not necessarily need products to outperform the consensus in order to achieve our return targets, nevertheless, this way of assessing the recent additions to our approved product portfolio is a directionally useful indicator to show that our bar for quality remains high.

One disappointment within our approved product investments has been Gavreto, a therapy which we and Roche fully impaired based on the updated commercial outlook for the product. For the development-stage therapies, we have seen some important progress such as the approvals of Airsupra, and Evrysdi and positive data readouts for zavegepant and Tremfya. However, otilimab and gantenerumab development has been discontinued, although we remain enthusiastic about the overall MorphoSys transaction given the significant outperformance from Tremfya. Lastly, we're excited for several important upcoming events in 2023 from these recent deals, including the potential approval of intranasal zavegepant, Phase 3 data from oral zavegepant and migraine prevention, aficamten in obstructive hypertrophic cardiomyopathy and Tremfya in ulcerative colitis and chronic disease.

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

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

Thanks, Marshall. Let's move to Slide 24. Total royalty receipts grew 79% in the fourth quarter and 24% for full year 2022 versus the respective year-ago periods. Excluding the accelerated Biohaven payment, royalty receipts grew 7% for Q4 and 5% for full year. The magnitude of growth in the fourth quarter reflects the accelerated Biohaven payment together with strong contributions from cystic fibrosis franchise, Xtandi, Tremfya and the Trelegy royalty, which we acquired in July. We also saw growing royalty contributions from Cabometyx and from several medicines not shown on this slide, particularly Evrysdi, Trodelvy and Orladeyo. These positive factors were partially offset by the loss of the DPP-IV royalties by weakness in Imbruvica and, to a lesser extent, Tysabri and by the adverse FX impact.

Full year growth was also partially offset by a decline in royalty receipts from the HIV franchise, which reached the end of its royalty term in 2021.

Slide 25 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 $1.1 billion in the quarter or growth of 96% compared with last year's fourth quarter. For the full year, Adjusted Cash Receipts were up $2.8 billion, up 31%. As Pablo noted earlier, prior to the impact of the accelerated Biohaven payment, growth would have been approximately 12% in the quarter and 10% for the full year.

As we move down the column, operating and professional costs were approximately 8% of Adjusted Cash Receipts in the fourth quarter and for the full year. As a consequence, we reported 99% growth in Adjusted EBITDA in the quarter and 32% for the full year, consistent with our top-line growth. When we think of the cash generated by the business to then be redeployed into value-enhancing royalties, we look to Adjusted EBITDA less net interest paid.

Net interest received in the quarter of $14 million reflected the semi-annual timing of the payments on our $7.3 billion of unsecured notes which occurs in the first and third quarters and the strong cash position on our balance sheet, which benefited from higher interest rates. For the full year, net interest paid of $145 million included interest received of $25 million on our cash position. After the $50 million upfront payment for development-stage funding of MK-8189, we generated Adjusted Cash Flow, our bottom line, of $946 million or $1.56 per share for the fourth quarter. This resulted in an Adjusted Cash Flow margin of 89%, which once again highlights the efficiency of our business model. For the full year, Adjusted Cash Flow was $2.2 billion or $3.68 per share, and our Adjusted Cash Flow margin was 80%.

Let's move now to Slide 26 in our financial position. We continue to maintain significant financial firepower for future royalty acquisitions. In 2022, we deployed $2.5 billion of capital on royalty acquisitions as well as $461 million on dividends. This more than offset our strong cash flow generation over the year so that our cash and marketable securities stood at $1.7 billion at the end of December. In the beginning of 2023, we deployed an additional $500 million on the Ionis transaction that Marshall described.

If we adjust for this post year-end outflow, our leverage on a pro forma basis would have been 2.7x [total] debt to EBITDA and 2.3x [net] (corrected by company after the call) debt-to-EBITDA. As a reminder, the fixed rate average coupon on our debt is slightly above 2% which compares to our target returns on royalty acquisitions in the high single digits to teens percentage range. I would also note that around 60% of our debt matures in 2030 or beyond. Taken together, we believe our cost of capital and debt maturity profile represent a durable competitive advantage for our business. Based on our financial strength and efficient business model, we remain confident in our ability to execute on our business plan and create value for shareholders.

Slide 27 provides our full year 2023 financial guidance. We expect Adjusted Cash Receipts to be in the range of $2.375 billion to $2.475 billion. This outlook does not include the $475 million milestone which we expect to receive from Pfizer if the FDA approves zavegepant for migraine, which has a PDUFA date in the first quarter. However, if zavegepant is approved and the $475 million milestone is included in our guidance, it would imply an adjusted range of $2.85 billion to $2.95 billion. I will explain the other key considerations underlying our top-line guidance in a moment. However, importantly, and consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account any future royalty acquisitions.

Turning to our operating costs. We expect payments for operating and professional costs to be approximately 8% to 9% of Adjusted Cash Receipts in 2023, slightly above the 2022 level. We continue to believe that the degree of margin protection provided by our unique business model is impressive in today's inflationary environment. Interest paid for full year 2023 is expected to be around $170 million and to follow the established quarterly pattern with de minimis amounts payable in Q2 and Q4. This does not take into account any interest received on our cash balance, which is particularly attractive at today's rates. Finally, we expect to make a $50 million milestone payment to Cytokinetics in the second half of 2023, based on the company's guidance of initiating their pivotal trial of aficamten in nonobstructive hypertrophic cardiomyopathy.

My final slide drills down further on our Adjusted Cash Receipts guidance. The graphic is illustrative, but sets out the various pushes and pulls behind our outlook for 2023. Starting with the left-hand side, we face a high base of comparison from the $458 million accelerated Biohaven payment, which we received in the fourth quarter of 2022. Since the preferred shares were redeemed, we will also no longer receive the quarterly

Series A fixed payments, which is another $52 million annual headwind. This brings the underlying base for 2022 Adjusted Cash Receipts to $2.28 billion.

On the right side, if we start from the Adjusted Cash Receipt base prior to Biohaven, we expect underlying growth of between 4% to 9% this year, which is expected to be largely driven by the CF franchise, Trelegy and Tremfya, partially offset by the losses of exclusivity on the DPP-IVs and Lexiscan as well as Imbruvica weakness. We also expect a modest contribution from three quarters of Spinraza royalties. Given the recent moderation of the U.S. dollar strength, FX is expected to represent a relatively modest headwind of minus 1% to minus 2% using today's rates.

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

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

Thanks, Terry. Let me close by saying how pleased I am with our strong performance in 2022. Not only do we enter 2023 with solid momentum, but our prospects have never looked better. To finish on Slide 30, I would like to take a moment to remind you where Royalty Pharma's business model offers a unique way to invest in biopharma, maximizing our exposure to many positive industry trends while minimizing exposure to many of its common challenges. We offer attractive diversification on the top line and bottom line.

We offer strong exposure to transformative therapies, including 15 therapies with more than $1 billion in end market sales and many well-known brands in the industry. Our portfolio benefits from an average expected duration of approximately 13 years, exceeding many big pharmas and large biotechs. From a financial return perspective, we have a track record of delivering consistent and predictable double-digit unlevered returns on deployed capital.

When we think about industry challenges, we do not take on significant early-stage development risk, which clearly differentiates us from biopharma. Also, we have no therapeutic area bias and minimal exposure to binary risks. The differentiated reward profile, combined with our strong financial position and powerful business model is what makes Royalty Pharma a unique and, I believe, highly attractive investment proposition.

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

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

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

QUESTIONS AND ANSWERS

Operator

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

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

Two questions, if I may. One in general about your funnel and certain characteristics of that, that you're seeing. And another on your comment from Marshall on targeted therapy. On the funnel, we appreciate the updates and the historical trend starts with over 300, I think it was 350 and then you go through various levels of evaluation before you finally conclude on closing something that's in the low single digits. As you think about the mix of what's entering the funnel in terms of commercial versus various developmental stages and how you go further down, are you seeing that remain consistent? Or is there a bias or shift in particular, as you noticed the recent years?

And then on the comment on the targeted therapy for cardiovascular and Lp(a), appreciated that from Marshall I think it's interesting to see how that's evolving across other therapeutic areas, immunology, in particular. Marshall would love to hear your thoughts on how you're viewing how that could shape up? Large areas we're seeing increased vocabulary around targeted therapy development there?

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

Thanks for your question, Chris. And I'm going to ask Chris Hite to answer your question on the funnel. But if you recall, one of the comments I made in my remarks is that over the last three years since our IPO, where we have deployed about $10 billion, the ratio has been 70% approved and 30% unapproved. Now, if you look over a longer period of time, it tends to be closer to 50-50 or 55-45, 55 approved, 45 unapproved. But Chris, go ahead.

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

Yes. Thanks for your question, Chris. The answer to your question is things haven't really changed. We actually provided a great level of detail to answer that question at our Analyst Day last year, which looked at the reviews and in-depth reviews by approved and preapproved products and by pre-existing royalties versus synthetic. And that really, that mix hasn't changed. But in general, the initial reviews are basically about 80% pre-approval and 20% approved drugs. And the in-depth review sort of is about 50-50, it's 55% preapproved and 45% approved. And on the synthetic side, on the in-depth reviews, it's 60% synthetic, 40% pre-existing that was in 2021, and the mix didn't really change in 2022.

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

And then, on your second question on targeted therapies outside of oncology. Absolutely. I mean this is why at the Analyst Day, we highlighted this as an interesting theme that we think is going to create some interesting new opportunities in the future. We mentioned cardiology is a good example. But I would agree with you in immunology starting to see good examples of that. Neurology is another area where I think we'll see more and more of those. So definitely interesting, something to watch. Although I would just take the opportunity to remind everyone when we talk about themes, those are not necessarily themes that we're saying we're going out and actively looking for those opportunities today. We think those are really interesting thematically that guide our thinking over the long term. But I think our core strategy of staying focused on exciting opportunities that offer a meaningful benefit to patients, physicians to the system and what we're seeing and getting access to those things overall is going to be the most important driver of our strategy.

Operator

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

Hardik Parikh - *J.P. Morgan Securities LLC, Research Division - Security Analyst*

This is Hardik Parikh in for Chris Schott. The first one is -- just generally, wanted your thoughts on the current deal environment. Are you surprised we haven't seen more deals given some of the funding challenges out there?

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

Sure. And I'll ask Chris and Marshall, if they feel appropriate to add to my comments. But I think we have definitely seen a very significant increase in our funnel as you see from prior years, which reflects the challenging funding environment today in life sciences. And I think consistent with that, we have deployed significantly more capital than we had in the past. If you look at sort of the average deployment maybe at the time of our IPO, we were talking about something like $1.5 billion. We guided to $1.5 billion, $7 billion over five years. And obviously, the increased activity

has enabled us to increase our guidance to more like $10 billion to $12 billion deployment over the next five years and $2 billion to $2.5 billion guidance now.

We reported today that we really deployed something like $3.5 billion last year. So it does reflect a lot more activity and significantly more capital deployed on our side. And I think the key thing for us, and we've been very clear about this with investors and analysts is that what really is critical is the quality of the underlying product. And while we have seen many, many more opportunities discussions. At the end of the day, we remain very disciplined with our capital deployment. And that obviously results in and the deals we're excited about where we see significant upside. And Marshall, this morning talked about Lp(a), which we think is going to be a very significant class, and we have two royalties now in the two -- really the two drugs that are being developed for that class is and maybe a few others much earlier. What's interesting also is that we ended up having much larger royalties than we had historically in those two products, but anyway...

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

Yes. The only thing I would add to that is I actually think the royalty market has been really robust. I mean last year was a record year in 2022. As I said in my prepared remarks and the slide 12 highlights the number of transactions has grown sixfold since 2015. And the dollar value of those transactions is up tenfold since 2015 and last year was a record year for the market as a whole. So the level of activity is really strong. So we think there's real -- and we think the growth is going to continue actually.

Operator

Our next question comes from Terence Flynn with Morgan Stanley.

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

Two for me. I was wondering maybe either for Pablo or Chris, if you think the IRA is going to impact your analysis of royalty opportunities as you think about how to look at returns under this new law? And then maybe for Marshall. Again, I appreciate all the background on Lp(a). Just wondering how you think about market creation here versus the PCSK9 drugs? Obviously, those have been less robust than people initially anticipated. So how do you think Lp(a) plays out relative to PCSK9s?

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

Sure. So regarding the IRA question, Chris, is going to take that question, and then Marshall can provide the other answers. But I think one very top-level comment regarding changes in -- that are occurring in our sector is that as you know, we have been incredibly creative in helping people address challenges, issues, problems. And that just is a really good framework for us to try to work with companies to help them achieve their goals. And obviously, the challenges forced by IRA not only I mean, they end up also creating opportunities for us. But go ahead, Chris.

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

Yes. Thanks for your question. I would just comment that we've obviously seen some of it being implemented and the Part D redesign and going to be implemented now. The price negotiation, we'll have to wait and see how that's implemented. And if there's any changes enacted specifically around the nine-year class. But we actually feel -- I think what Pablo was highlighting is we feel we're uniquely positioned around these types of significant changes in the industry, given the fact that we can really sort of quickly adapt changes in laws and price changes in how we make future investments. And I think that's really the key around the uniqueness of our business model is we're constantly deploying capital, as you've seen and making new investments, and we can adapt quite quickly to the changes in the laws.

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

Marshall?

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

Great. And so Terence, on your second question, yes, thanks on Lp(a). So a few comments there. I think first and foremost, the most important thing in terms of creating that market is what the outcome studies show us. I think if we show if those studies, as we certainly hope that they will show a significant cardiovascular event benefit, I think that's going to be a very strong driver of market formation there. Second important thing is -- and we highlighted this in the script, is that as opposed to the PCSK9 therapies where there are lots of ways to manage LDL. Here, really the only option for meaningfully lowering Lp(a) are going to be these agents. So I think that does put them in a different category.

And then lastly is, there will be some market development around testing for Lp(a) that isn't -- except, I think, in some academic centers today, a standard. But there, I think the technology for the test is pretty straightforward. So once you check all the boxes in terms of having approved agents, that show a clinically compelling profile, I think the need to help these patients from physicians and patients and their families is going to be a powerful driver of that market coming together. And we have two great companies in cardiovascular disease between Novartis and Amgen to make all that happen.

Operator

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

Susan Chor - *Bank of America Global Research, Research Division - Associate Analyst*

This is Susan on for Geoff. Our question is, how will interest rate changes affect the company's net interest and expense income? And related to that, what are the company's underlying assumptions for 2023 changes in interest rates?

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

Thank you for the question, Terry, you should take that one.

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

So as we mentioned in the prepared remarks, we are in a very fortunate position where 60% of our debt matures in 2030 and beyond, and we're currently borrowing at very low rates. So we feel very fortunate there. Our guidance does not imply any additional debt. It's just the $7.3 billion we have outstanding at our current coupon of around 2.25%. As we look longer term, we do have a $1 billion maturity towards the end of this year. And we are in a nice position there because we have a lot of cash flow coming in particularly with the Biohaven acquisition. So we have some flexibility depending on how the pipeline plays out over the year, we could repay that debt, we could refinance. We could also use our revolver if the rate environment is not particularly attractive at that time because the revolver is prepayable. So I think we feel like we're in a very good position. We have plenty of access to capital. We have a nice cash flow generation and a strong balance sheet to be opportunistic and to deploy capital in great new royalties. So we feel very good.

Operator

Our next question comes from Umer Raffat with Evercore.

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

This is Mike DiFiore in for Umer. I just want to ask on the recent deal regarding your acquiring a share of Ionis' Spinraza royalties. What are your views on the long-term prospects of Spinraza, especially given the fact that U.S. sales have struggled although BIIB does note a possible ex-U.S. resiliency and how much meaningful contribution do you envision for high-dose Spinraza as well as the adult SMA opportunity?

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

Sure. Marshall?

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

Yes. Thanks for the question, Mike. I think overall, the SMA is a market we've followed for years and I think looked at all of the major medicines there. Spinraza being first-in-class, first-in-disease has a very important role in the treatment paradigm for patients, their families for physicians. And when we were doing diligence for Ionis, we took a fresh perspective there and definitely see a meaningful role for Spinraza into the future on -- in the management of SMA around the world. So that was really our underlying view that supported the Ionis the Spinraza portion of the Ionis' investment and given the unmet need for these patients, these patients do need options. That's why we're really happy to be -- to participate in Evrysdi as well as well as Spinraza.

On the other two, on the high-dose Spinraza as well as adults. Whenever we make an investment, we think about all of the scenarios and the high dose data and continued expansion into adults, and we could see more competition from Zolgensma, the gene therapy in adults as well in the future. And I think those were all things we contemplated. Although I would just remind you, our royalty is only on sales up to $1.5 billion every year. So some of these -- some of these things, high dose, et cetera, might have less of an impact on the portion of sales that we participate in because of the way that it's structured. But regardless, we always take a very scenario-based approach and think about how all of these can impact our investment, and we feel very happy to be -- to have Spinraza as part of the portfolio.

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

And maybe just to add, if you look at the total capital deployed and just internally on how we allocated that $500 million, we're very comfortable with different scenarios materializing on Spinraza, delivering our target returns for approved products, which are high single digit, low double digit. So that is obviously a very important aspect of this transaction. And then if you look at the capital that we allocated to the really exciting Lp(a) component of the transaction, that should provide very significant upside for us on this new class. So again, we approach this investment with high -- a lot of discipline and really making sure that each investment on its own was going to deliver attractive returns, unlevered returns. Obviously, Spinraza also has this characteristic that we can lever that with a very low cost of debt, which enhances dramatically the returns for us.

Operator

Our next question comes from Ashwani Verma with UBS.

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

I have two. The first one on just the cystic fibrosis franchise. So the Vertex triple, the Phase 3 Skyline study is they're expected to complete by the end of this year. Just curious like what are your thoughts on how the profile can stack up against Trikafta? And is it possible that the arbitration process for the royalty on the triple can get started with the Phase 3 top line? Or is that something that could only begin with the product launches? Second question, so it's -- like after a little bit of a while that the biotech market has started to open up a little bit since the start of the year. Just curious if you think that is going to impact your deal activity this year?

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

Sure. Terry, do you want to take the first part of the question and maybe, Chris, the second one?

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

Sure. with regard to the new Vertex triple, I think I would just reiterate what we've said previously that Trikafta sets a very high bar. And we expect that Trikafta will continue to be a very important contributor to Royalty Pharma over the long term. We saw the same Phase 2 data that everyone else saw. And I think at this point, it would be challenging to say that they are clearly -- that the new triple is clearly differentiated. But we'll need to see the full Phase 3 data, including the long-term safety as well to really understand that. In terms of your question around legal strategies, we just haven't elaborated at this point. And I think we'll continue to evaluate the situation and update investors at the appropriate time.

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

And with regard to your second question on if the equity markets came back strong and opened up for the biotech sector, would that impact our deal activity. I think what I would say is, just going back to that Slide 12, we had in our presentation just shows the growth of the market, generally speaking. And the -- it's really been a change of mindset, I believe, in the biopharmaceutical sector, broadly speaking, between large pharma, mid-cap pharma, biotech, where considering royalty monetization or synthetic royalties as a piece of your capital structure is an evolution that's happening right now in the sector. And so whether the markets are really strong or not so strong, we think the mindset has been sort of evolving. And so we don't really see that impacting our deal activity. There's been a -- just the evolution of the growth of this market as potentially a piece of the capital structure.

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

If you actually look at this with a bit more of perspective over the last 10, 15 years, we went through some incredibly strong equity capital market for biotech where huge amounts of capital were raised by the industry. And we still did incredibly well in those years, deploying multiple billions of dollars of capital every year in really exciting products. So I think the comment that Chris made is really key here because if the equity markets were to be more favorable again in the near term, the underlying really important shift in the way companies are funding themselves, which now includes royalties, is a really strong tailwind we have for our industry. And then in addition to that, the other area we're very excited about where we see a lot of potential interesting transactions and potentially transformative product is with big pharma.

And that is -- an example of that is the transaction we did with Merck at the end of the year. And we're very encouraged by that because we're having discussions with many companies about potentially funding attractive products. And it's a question also of just, again, continuing to have discussions with management teams explain how funding with royalties is beneficial to them. And that's a really important underlying trend. But thank you for your question.

Operator

Our last question comes from Stephen Scala with Cowen.

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

I have two questions. The current trajectory of Ibrutinib is increasingly concerning I am wondering if you believe AbbVie guidance adequately captures all risks? And how are the challenges similar to or different from what you expected three years ago? The second question is a little bit bigger picture for Pablo. It is clear that Royalty Pharma's business has great momentum, a bright future and is very consistent. But many quarters, including this one, you get questioned about potential risks such as IRA and/or competition, which you were asked about the CF situation with

Vertex, which you were asked about. Other quarters, you get asked about competition and sometimes even adverse tax legislation. Now these are real risks, but they're just manageable from your perspective and therefore, your answers tend to be kind of high level.

But since they are risks, I am wondering if you would be willing to rank them by your perception of the challenge they represent to the company over the long term? And to provide a reference point, please allow me to speculate on the order. So I think probably CF is at the top; competition, two; IRA and innovation, number three; and adverse tax legislation is last.

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

Sure. So I guess, Terry will take your first question, and then I can come back and provide some perspective on this bigger strategic question.

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

Yes. Steve, so on Imbruvica, we certainly have been disappointed by the recent commercial performance of that product. And like many people, we had expected it to be more resilient in the face of competition. But we do take the recent trends on board. And we continue to make sure we understand what's going on in that market. And I think that our guidance, I don't want to really get into or have an opinion on what AbbVie has said, but I can speak to what we include in our guidance, and we have taken what we think is an appropriately conservative approach to our guidance, including all of the recent trends. And we obviously look at a range of scenarios, but certainly for this asset, that range of scenarios based on recent trends has been more focused on the downside. So that's probably all I can say on Imbruvica specifically at this point.

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

Yes. And also, just a reminder, if you look at that investment Imbruvica and when we made it and the sort of purchase price of our royalty interest and the expectations we had at the time, which were a couple of billion dollars for the drug. It vastly exceeded those sales expectations. I mean even the sales that are maybe likely in the future as it continues to decline, are meaningfully above what we have forecasted. So from a return perspective, that investment for us has been really a big winner. But I think talking about how I think about long term, the strategic opportunities and risks for Royalty Pharma. I think the biggest -- the thing that always is -- the most important thing we focus on and the thing that we worry about the most, honestly, is product selection. That's sort of the number one thing for us, more than anything.

And mitigating potential risks as we make investments is really driven by really understanding the product if it's a differentiated product or not, what value it brings to patients, then the competitive landscape, not over the next two, three years, but over the next 5, 10, 15 years. And then innovation, but obviously, balancing that with like the significant upside that can be derived from investing in blockbusters. And if you see historically our track record, what's been really consistent is our ability to find therapeutic classes that are going to become really important drugs that are going to become really important and then make several bets on many of these new therapeutic classes that are going to change people's lives.

You specifically mentioned other things that you see as risk like CF. And I think we've been very clear about the CF that from our perspective, first of all, we think we have a very solid position there and defensible position. And we've really looked at the IP situation there when we made our investment in 2014. And then again, when we acquired the residual interest of the Cystic Fibrosis Foundation had. And at that point, realized that we have a lot more knowledge about the IP situation when we made this last investment, much more recently. And again, we were very comfortable with our position. That's why we spent another $600 million there. Now Terry has done a great job explaining that the potential variance there to revenues, which are about $800 million currently and growing from that franchise are a couple of hundred million dollars in a business, and this is sort of at the later part of this decade, in a business that should have much higher revenues than we have currently. Other things, competition, I think our position of strength increases as time goes by for many reasons. The team that we have, which is excellent, our cost of capital and the scale of our business has, which gives us a huge advantage. So I think I feel much better today regarding our competitive positions than even a couple of years ago, two, three, four years ago when some of the new entrants came to market where they are very strong businesses, some of these private equity firms with access to a lot of capital and potential good teams. But as we've now been competing with them over the last two, three, four years, honestly, I think we feel very, very strong about our market position. So I think, yes, there are risks.

But one thing to just remember is that Royalty Pharma compared to many, many other businesses in life sciences has something which is really, really unique that I think is not appreciated well by many investors or it's sort of underappreciated, which is the fact that we come in and make these investments with a very, very attractive risk/reward profile because we're coming in with -- first of all, with the approved product, the risk is obviously very low at that point. There is some risk, obviously, but much lower. And we have, based on our structure, an ability to make very attractive investments in approved products that, when we add the leverage, end up returning very high returns. And then with the unapproved, it's an approach of having a portfolio and having many investments that have very significant upside potential.

And when you look at our business in a nutshell, it provides this ability to invest in this great industry in some of the most attractive therapies that are being developed on a diversified basis, and with very, very low additional cost, infrastructure costs, right, very low overhead and not a lot of the sort of challenges that other companies face in terms of very high operating expenses, manufacturing expenses and other things. So I think overall, I think the risk reward is very attractive and tilted towards high returns and also towards consistent sort of double-digit top-line and bottom-line growth, which is very unique in life sciences. And it's predictable and it's high growth. So that's my answer to your question.

Operator

I would now like to turn the conference back to Pablo Legorreta for closing remarks.

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

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

Operator

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