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OVERVIEW:

Company Summary

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

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Royalty Pharma First Quarter 2024 Earnings Conference Call.

I would like now to turn the conference 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 first quarter 2024 results. You can find the press release with our earnings results and slides of this call on the Investors page of our website at royaltypharma.com.

Moving to Slide 3. I would like to remind you that information presented in this call contains forward-looking statements that involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from these statements. I refer you to our 10-K on file with the SEC for a description of these risks. All forward-looking statements are based on information currently available to Royalty Pharma, and we assume no obligation to update any such forward-looking statements.

Non-GAAP liquidity measures will be used to help you understand our financial performance. The reconciliation of these measures to our GAAP financials is provided in the earnings press release available on our website.

And with that, please advance to Slide 4. Our speakers on the call today are Pablo Legorreta, Founder and Chief Executive Officer; Marshall Urist, EVP, Head of Research and Investments; Chris Hite, EVP, Vice Chairman; and Terry Coyne, EVP, Chief Financial Officer. Pablo will discuss the key highlights, after which Marshall will give a portfolio update. Next, Chris will discuss our development-stage portfolio. Afterwards, Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session.

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 a successful start to 2024 as we execute against our vision to be the leading partner funding innovation in the life sciences.

In terms of the financials, we delivered 14% growth in Royalty Receipts. This represents our recurring cash flows, and the strong performance in our quarter reflects the quality of our diversified portfolio of more than 35 commercial products. Milestones and other contractual receipts, which are more variable, declined, reflecting the high base effect of the year-ago quarter from a nonrecurring Biohaven-related payment. As a result, Portfolio Receipts, our top line, declined to $717 million, which was in line with our expectations.

Turning to capital allocation. Today, we're announcing an exciting transaction, which is expected to take our capital deployment to approximately $670 million. Marshall will take you through the details, but in summary, we have agreed to acquire royalties and milestones on Sanofi's frexalimab for approximately $525 million, including estimated transaction costs. This is an exciting development-stage therapy with multi-blockbuster potential in multiple sclerosis and other immune indications. Following the 5% increase in our dividend in the first quarter, I'm also delighted to announce today a new commitment to grow our dividend by a mid-single-digit percentage on an annual basis.

Looking at our portfolio, we will have 15 development-stage therapies, which we estimate have the combined potential to generate significantly greater than $1 billion in peak royalties. Most of these therapies have blockbuster sales potential and are in development by premier global marketers. We believe our development-stage portfolio is highly attractive and underappreciated by the market, and Chris will expand on the multiple potential events we expect over the next year.

Lastly, I am pleased to reconfirm our 2024 full year guidance. We continue to expect Portfolio Receipts to be between $2.6 billion and $2.7 billion. Based on expected growth in Royalty Receipts of around 5% to 9%. Consistent with our standard practice, our guidance is based on our current portfolio and does not include the benefit of any future transactions.

Slide 7 shows our impressive track record of strong growth since our IPO. As I noted earlier, we delivered 14% growth in Royalty Receipts in our first quarter. This is the highest quarter growth rate we have achieved since the first quarter of 2022 and sets us up well to deliver our full year guidance. The slide also illustrates the variable contribution from milestones and other contractual receipts when we look at the overall trend in Portfolio Receipts.

Overall, this track record of strong growth speaks to our ability to execute successfully and consistently against our strategy in the growing market for biopharma royalties.

With that, I will hand it over to Marshall to update you on our portfolio.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Thanks, Pablo. I want to focus today on the exciting transaction we just announced for Sanofi's frexalimab. Slide 9 summarizes the details of the transaction and the scale of the opportunity. We have agreed to purchase a royalty interest in frexalimab from ImmuNext, a privately held biotech, and expect to pay approximately $525 million, including estimated transaction costs. In return, we will be entitled to receive a royalty ranging from high-single to low-double digits on worldwide sales. Also, we will share a minority of the royalty with the former ImmuNext shareholders on sales above $2 billion. Importantly, the royalty is long duration running to 2041, which is central when we think about the returns. In addition to royalties, we will be entitled to receive significant potential milestones.

In terms of the commercial opportunity, Sanofi has stated that frexalimab has the potential to achieve nonrisk-adjusted peak sales of over EUR 5 billion across multiple indications. In our view, the multiple sclerosis opportunity alone has the potential to generate over $3 billion in peak sales

based on its differentiated profile. Should frexalimab generate $5 billion in peak sales, this would suggest peak annual Royalty Receipts to Royalty Pharma of over $400 million.

Frexalimab is a first-in-class antibody with a novel mechanism of action targeting CD40 ligand. This pathway is thought to be involved in the development and progression of multiple sclerosis and may play a critical role in other immune diseases. Sanofi's Phase 2 data was recently published in New England Journal of Medicine and highlights the clear potential of frexalimab as a high efficacy, non-lymphocyte depleting therapy for multiple sclerosis. Frexalimab significantly reduced disease activity, as measured by MRI, and the clinical relapse rate was close to 0 at 48 weeks. Importantly, the treatment was well tolerated with no notable safety signals.

Based on this compelling profile, Sanofi has initiated Phase 3 clinical development in multiple sclerosis, with results and regulatory submissions anticipated for 2027. Phase 2 studies are also underway in type 1 diabetes and lupus, two immune diseases in which a role for the CD40 pathway has also been implicated.

Slide 11 provides an overview of the fundamental drivers of our excitement in the exceptional opportunity offered by frexalimab. On top of the compelling Phase 2 efficacy, the differentiated mechanism of action may provide a potential safety differentiator versus existing high-efficacy multiple sclerosis therapies. We would also note that strong Phase 2 data in MS has historically been highly predictive of success in the Phase 3 setting. Furthermore, our statistical analysis confirm that Sanofi studies are well designed and powered for success.

Commercially, our proprietary U.S. claims analysis suggests that nearly 100,000 patients will have discontinued anti-CD20 therapy by the time frexalimab launches in 2028, a large addressable market that alone supports blockbuster potential for frexalimab, although we anticipate use in a broader set of MS patients, if approved.

Moving to Slide 12. Frexalimab check all the boxes for us. Clearly aligning with our product selection framework, it's a potential first-in-class therapy with strong scientific rationale and a clear commercial position. It has very supportive Phase 2 clinical data, and it will be marketed by a leading global immunology company. Frexalimab is, as Sanofi describes it, a pipeline and a product across several immunology indications and importantly, has the potential to contribute significantly to our growth in our Royalty Receipts with an attractive returns profile and long duration.

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

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

Thanks, Marshall. I want to expand on the frexalimab transaction and highlight the broader potential of our growing development-stage pipeline, which we think is underappreciated by the market. A strong pipeline is central to our strategy. Instead of focusing on any one project in detail, we want to provide an overview of our current development-stage portfolio.

Slide 14 summarizes the key take-home messages. In short, since our IPO, we have assembled a portfolio that consists of 15 development-stage therapies, which we believe have the potential to contribute greater than $1 billion combined peak annual royalties. Most of these therapies in development are potential blockbusters and are in the hands of powerful marketers. We have carefully managed the risk profile of this portfolio by selecting therapies which meet our product framework and that are primarily in late-stage development. We have also built in risk mitigating deal structures where possible.

Lastly, we see the potential to begin unlocking the value of this exciting portfolio through multiple clinical and regulatory events, which we expect over the next 12 to 18 months. These include the FDA action date for KarXT, FDA filings for aficamten and pelabresib, and pivotal study results for seltorexant, TEV-'749 and Tremfya in Crohn's. And in 2025, we expect outcomes data for pelecarsen, which has the potential to be a very significant royalty for our portfolio.

Slide 15 highlights that we have deployed capital of close to $23 billion since 2012, with a healthy balance between approved and development-stage therapies. Over the period, the majority of our capital has been deployed to acquire royalties on approved products. And even with the expansion

of our development-stage pipeline I just referenced, this weighting towards approved products has remained the case since our IPO. However, when we look on an annual basis, there is considerable variability in this mix, which reflects the opportunistic nature of our business.

Slide 16 shows that our development-stage pipeline has grown fivefold since our June 2020 IPO. The graphic on the right-hand side illustrates that our pipeline is nicely diversified by therapeutic area, including neurology, psychiatry, cardiology, cancer, rare disease and immunology. When it comes to investing in development-stage therapies, we have a strong track record.

On Slide 17, you can see that we have invested around $9 billion in this category and that our success rate has been high. Approximately 70% of our development-stage investments have gone on to receive regulatory approval. Around 20% are still in development and only 10% have not reached the market. This record reflects our diligence process, including the product selection framework Marshall spoke to, our ability to identify therapies with unmet and underserved patient needs and our large opportunity set. To balance the higher inherent risk versus approved products, we target returns in the teens for development-stage investments.

Expanding on my previous point, on Slide 18, we believe we have a unique and powerful approach to development-stage investing. In terms of product selection, in addition to requiring strong proof-of-concept data, we often partner directly with the innovators so that we have access to additional insights into the clinical program and sales potential. Once we have made the product selection, we typically then structure the transaction to include risk mitigation strategies, and also ensure we are strongly aligned with the interest of our partner. These strategies can include investing in post-pivotal study therapies, our deep due diligence supported by patient-level data and regulatory correspondence and receiving a portion of returns through milestones and stage-investing, to name a few. You can see here a number of examples that illustrate our unique approach, including our investments in KarXT, aficamten, frexalimab and Merck-8189.

Slide 19 is my final slide. It shows our late-stage development pipeline by potential peak sales and the associated royalty we could expect to receive. Importantly, these all have first or best-in-class potential and are supported by world-class marketers. The majority have multi-blockbuster potential, and in aggregate, we estimate the combined peak sales at over $25 billion on a nonrisk-adjusted basis. Based on the respective royalty rates, this could potentially translate to over $1.25 billion in annual peak royalty to Royalty Pharma, with frexalimab and olpasiran potentially the largest individual contributors.

I would also add that we are pleased with the positive news announced by Teva that TEV-'749, a long-acting injectable version of the antipsychotic olanzapine, achieved its primary efficacy endpoint in the Phase 3 study and continues to have an encouraging safety profile. We look forward to additional updates in the second half of the year.

As a reminder, in the fall of 2023, Royalty Pharma partnered with Teva to provide up to $125 million in R&D funding for the TEV-'749 Phase 3 program. We will receive a milestone payment on FDA approval as well as low to mid-single-digit royalties on its sales. Given its emerging differentiated safety profile in a market with significant unmet need, we are excited about the commercial potential for TEV-'749. This once again highlights our unique ability to identify attractive products across the biopharma industry and partner with innovators to accelerate development. As these products become commercial, they will contribute to our attractive compounding growth in the years ahead.

To close, we have an exciting development-stage portfolio, with multiple expected upcoming events, so you can see why we expect to continue to deliver attractive compounding growth in the years ahead.

With that, I would like to hand it over to Terry.

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

Thanks, Chris. Let's move to Slide 21. Royalty Receipts grew by 14% in the first quarter, reflecting the strength of our diversified portfolio. The key drivers of growth were the strong performance of our base business, notably our cystic fibrosis franchise and Trelegy, as well as the acquisition of incremental Evrysdi royalties.

Portfolio Receipts, our top line, declined by 37%, reflecting the impact of nonrecurring items in milestones and other contractual receipts in the year ago quarter. Specifically, in the first quarter of 2023, we received a $475 million milestone payment following the FDA approval of Pfizer's Zavzpret. As a result of this nonrecurring item, milestones and other contractual receipts declined to $12 million in the quarter. This decline was entirely consistent with expectations and fully reflected in our full year 2024 guidance.

Slide 22, shows how our efficient business model generates substantial cash flow to be reinvested. Portfolio Receipts amounted to $717 million in the first quarter. As we move down the column, operating and professional costs equated to 8.4% of Portfolio Receipts. Net interest paid of $73 million reflected the semiannual timing of our interest payment schedule, with payments falling due in the first and third quarters.

Moving further down the column, we have consistently stated that 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, or as we call it, Portfolio Cash Flow. This amounted to $584 million in the quarter, equivalent to a margin of around 81%.

High level of cash conversion, once again, highlights the efficiency of our business model. Capital deployment in the first quarter was a little under $100 million, but will be approximately $670 million after we acquire the frexalimab royalty.

Slide 23 shows that we continue to maintain significant financial capacity for future royalty acquisitions. In total, we have over $3.5 billion available through a combination of cash on our balance sheet, the cash our business generates and access to the debt markets. At the end of the first quarter, we had cash and equivalents of $843 million. Following the approximately $525 million of cash payments related to the ImmuNext transaction, this will take our cash and equivalents to approximately $320 million on a pro forma basis.

When we turn to our borrowing position, on top of our $6.3 billion of investment-grade bonds, we maintain significant leverage capacity, which we can take up to 4x if the right opportunity arose. Furthermore, we have additional undrawn financial capacity from the $1.8 billion revolver. Taken together with our strong cash generation, we feel good about our ability to continue to execute transactions and create shareholder value.

Slide 24 sets out our unchanged full year 2024 financial guidance. We expect Portfolio Receipts to be in the range of $2.6 billion to $2.7 billion. Let me walk you through our assumptions.

First, within our overall top-line guidance, we expect to deliver continued attractive growth in Royalty Receipts of around 5% to 9%. We anticipate the strength of our diversified portfolio will more than offset Imbruvica and Tysabri headwinds.

Second, we face a high base of comparison in 2023 as a result of the $525 million of Biohaven-related payments we received last year. As you have seen today, the largest element, the $475 million Zavzpret milestone was received in the first quarter of 2023. Milestones and other contractual receipts are, therefore, expected to decline from around $600 million in 2023 to approximately $30 million in 2024.

Lastly, our guidance assumes a negligible foreign exchange impact. Importantly, and consistent with our standard practice, this guidance is based on our portfolio as of today does not take into account the benefit of any future royalty acquisitions. For the second quarter, we also anticipate Portfolio Receipts to grow in the high single digits compared to last year's second quarter.

Turning to operating costs. Payments for operating and professional costs are expected to be approximately 8% to 9% of Portfolio Receipts in 2024. We continue to believe that the degree of margin protection provided by our unique business model is impressive. Interest paid for full year 2024 is expected to be around $160 million, with de minimis amounts to be paid in Q2 and Q4. This does not take into account any interest received on our cash balance, which was $6 million in the first quarter.

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 begin my concluding remarks by saying how delighted I am with our start to 2024. We delivered double-digit growth in Royalty Receipts, we strengthened our exciting development-stage pipeline, and we have announced a strong new commitment on our dividend growth.

On my final slide, I want to highlight our incredible track record of consistently identifying exciting ways of biopharma innovation and finding ways to participate, from Rituxan, the first monoclonal antibody for cancer, to Gilead's HIV franchise, to Humira, where we invested in 2006 and it later became the industry's biggest selling product to more recent life-changing therapies like Trikafta for cystic fibrosis and Evrysdi for spinal muscular atrophy.

And when we look ahead, we expect to see a number of the exciting development-stage therapies we talked about today joined this list, transforming the lives of patients with multiple sclerosis, cardiovascular disease and schizophrenia, among others. The ability to identify new waves of innovation and to constantly replenish our portfolio with life-changing therapies is our DNA, and we're confident that it can continue.

With our simple, but powerful business model, our deep access to capital, we're confident we can continue to deliver attractive compounding growth over the remainder of this decade and beyond. With that we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

And our first question comes from Chris Shibutani with Goldman Sachs.

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

Congratulations on the deal with frexalimab. The opportunity that is at the forefront, clearly in MS, but they're also in advanced clinicals. Maybe, Marshall, can you help us how you risk assess and think about the potential in the other indications? I think there's Sjogren's as well as type 1 diabetes and lupus, the latter two, in particular, historically quite challenging.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Chris, absolutely. We are really excited to be adding frexalimab to the portfolio. And as you correctly observed, our -- the core of our thesis and our view was really based on MS, where there's a very consistent and compelling set of Phase 2 data.

As we mentioned, Sanofi is going forward in other indications, type 1 diabetes and lupus. Both are interesting. I think, certainly, we'll wait to see how the Phase 2 data there works out. There's not a lot of precedent data for CD40 in those areas, but I think they would definitely add potential sources of upside to the transaction.

And then just as a reminder, Sanofi has said that in Sjogren's, they actually aren't going forward there in Phase 2. But I think -- but as we said, based on MS was really the base of this investment, and we're really excited to have this as part of the portfolio.

Operator

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

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

Just have a couple. The first, maybe for Marshall, another one on frexalimab. Just walk us through kind of the idea here of the MS market being -- you kind of a void to fill with respect to Tysabri. Is there a thought that maybe you had to ultimately replace the economics from Tysabri in the longer term. Obviously, the MS market can be a little challenged when it comes to generics today?

And then the second question, maybe for Terry or Pablo, on capital deployment, when you think about the share buybacks, you guys didn't do a lot of share buybacks when that was first announced. And I just wanted to know the context for the commitment now to a dividend versus buyback. You guys generate a lot of cash, and so I wanted to kind of get that perspective from you guys.

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

Thanks for the question, Geoff. And I think Marshall can definitely take the question on frexalimab. And then I think Terry will talk about capital deployment and our commitment to dividend growth.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Absolutely. Geoff, so just quickly on frexalimab. So no, the rationale behind frexalimab was not to fill any sort of void around Tysabri. It was the outcome of the strategy and our approach to building the portfolio that we talked about with everyone, which is looking for really exciting quality products that have -- that check all the boxes in our product selection framework that we talked about at the beginning of the call. And I think that was really the core of it in our approach, and we are really excited to have it as part of the portfolio. And specifically on the commercial opportunity, the way we thought about it was, there are certainly -- the dominance of the CD20 class today is really compelling and it's been really important for patients. But what we see is as this market develops, that there's going to be a need for high efficacy alternative mechanisms of action, and that's exactly what frexalimab offers. And so that was really the core of our thesis and why we think this is going to be an exciting product for patients and for Royalty Pharma.

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

I mean one thing just to quickly add to what Marshall said is, there's no question that Royalty Pharma has had great success investing in diseases like multiple sclerosis, with Tysabri and also you may remember that we had a royalty on Tecfidera. So in total, I think we had invested $3.4 billion in MS with great results. And now with this another $500 million or so, so it's an area we like where we see still huge potential for improvement in current therapies.

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

And then, Geoff, on your question on capital allocation. As we said in the past, our number one priority is buying new royalties. We think that's how we can drive the most long-term value. We have been paying a dividend since our IPO and actually the 20 years prior to our IPO and been growing it consistently every year. Since the IPO, we've grown at mid-single digits or better.

And so -- and it was fully our plan to continue to grow at mid-single digits. So I think that the commitment today is simply a sort of a reflection of what our current -- what our plans had already been. We thought it was important to sort of put that out there. So investors understood that aspect of our capital allocation.

And then in terms of the share buyback, it's certainly something that is -- as we've said before, it's a tool that we really like having. I think when we think about the buyback, we also think about in the context of some of the opportunities that we're seeing out there as well. And I would say that the team is extremely busy. We're really excited about the overall opportunity set. We never know when transactions are going to happen, but that, I think, is a factor when we think about deploying capital because, as I mentioned, our number one use of capital that we think is buying new royalties.

Operator

Next question comes from Chris Schott with JPMorgan.

Ethan Brown - *JPMorgan Chase & Co, Research Division - Analyst*

This is Ethan on for Chris Schott. I just have two quick ones. So first off, with the 15 development stage assets that you noted, how do you think about the balance of Royalty's portfolio at this point? And maybe more specifically, as the company becomes larger and more diversified going forward, is there an ability or desire to skew capital deployment more towards the development stage where you might get greater potential returns? And then the second question is just how you think about the 2025 Medicare Part D Redesign and any estimate on the impact to your portfolio at this point?

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

Sure. So I'm going to ask Marshall and Chris to talk about the Medicare and other questions. But just the very top level, the business has been incredibly successful over many decades by -- and actually really over a decade when we started to invest in unapproved. And we think that this balance that has been 60-40, of approved and unapproved, is a good way to continue to grow our business. Could it be 50-50, sure. But what really happens in our business, that measurement of 60-40 is sort of the cumulative capital deployed in approved and unapproved. But in reality, what happens with our business is that the $9 billion or so that we've invested and unapproved, so many of those got approved, as you saw on a slide, 70-or-so percent. I think we also have really good data on several others that are not yet approved like KarXT and aficamten, seltorexant that -- those we view as very high probability of approval.

But the point is that this is sort of a moving average suggestion because the $9 billion reflects the cumulative. And what happens is that several of those get approved, and it gives us the capacity, the opportunity to actually continue to invest significantly in unapproved. And as the business grows, I think maintaining that balance of around half in approved and half in unapproved is probably a good target for us. But Marshall, back to you.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Great. And then your -- the last part of your question was on the 2025 Medicare Part D Redesign. And so I think like a lot of the world, the specifics of that on a product-by-product basis are something that we're still thinking through. But just to remind everyone, the Royalty Pharma portfolio doesn't have at a high level, a lot of exposure to Medicare Part D. And we've highlighted three products in the context of certainly the potential for IRA negotiation, Xtandi, Imbruvica and Trelegy that are significant products in our portfolio. But I think specifically, but the same conclusion, I think, holds for the Medicare Part D Redesign, which is, which is that we don't think there's going to be a significant impact on our portfolio. And certainly, we have a balance there of products that are higher priced and something like Trelegy which is lower priced and obviously, we'll see very different dynamics and puts and takes within the Medicare Part D Redesign.

But I think the important thing is the -- there isn't a lot of exposure right now. And as we continue to invest and build the portfolio with products like frexalimab, we will continue to add more and more diversity to the portfolio.

Operator

The next question comes from Peter Verdult with Citi.

Peter Verdult - *Citigroup Inc., Research Division - MD*

It's Peter here from Citi. Just a few questions, please. Just kicking off with frexalimab. We like this asset a lot, nice to see a deal. Just to be clear, Marshall, is this still -- is it all valued and structured around MS? Or have you put in any sort of placeholder value for lupus and type 1? That's question number one.

Number two is lots of good stuff going on in terms of development pipeline, but there have been some, should we say, recent setbacks. So I would be interested to hear how you're thinking about the risk profile around pelabresib, in light of the emerging safety concerns anything you're able to say right now.

And then lastly, Marshall, just a clarification. Sorry to be gnarly, but when I look at the ImmuNext press release, they're stating that should frex sales exceed 2 billion, then Royalty goes from having all the royalties to a minority share. So I just want to make sure, does that still -- is your comment earlier in the presentation about getting $400 million royalties of 5 billion euros. Does that chime with what is in that ImmuNext press release?

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Pete, welcome to the call. So just to make sure I hit all of those. So first on frexalimab, the core of our thesis was definitely centered on MS. So our kind of base view is an MS driven one. Certainly, we -- one thing we really like about the transaction is the potential for further indications to come along for Sanofi invest in those, which would drive further sales as well. So not part of the base case, but we definitely like investments like this, where there are -- there is optionality on indication expansion.

The second question was on pelabresib. So not much to say beyond what's in the public domain. We're following the same thing you guys are, but I would just recommend -- I would just remind everyone that to think about pelabresib in the broader context of the MorphoSys investment. So pelabresib was a -- is an interesting product. We're excited to see what happens with it, but was a small overall part of that transaction, which was really focused on the great royalty on Tremfya that we acquired there.

And then your third question was the royalty structure. So no. So the way it works is we always have a majority of the royalty, a significant majority of the royalty. Once sales exceed $2 billion, there is some sharing with the former shareholders of ImmuNext, but no. We still maintain the majority of the royalty, which is a structure that, that sort of sharing and that structure is something we've used in the past in other transactions.

Operator

Our next question comes from Umer Raffat with Evercore.

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

This is Mike DiFiore in for Umer. Congrats on the deal. A few for me on frexalimab and then one follow-up. On frexalimab, would you be able to quantify the minority share of royalties? Like what percentage you get above $2 billion? And also the total amount of milestone payments and the cadence of them? And also on Slide 11, regarding the unmet need, it implies that there is significant opportunity after patients discontinue anti-CD20s, which also implies that either patients are still not too far along in their disease after they can discontinue or they had entered the nonrelapsing SPMS phase, and that frexalimab can be efficacious in this setting. What gives you confidence that this may be the case? And I have a follow-up.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. So just to make sure I hit all of those. So Mike, we haven't quantified what -- we haven't quantified the amount of sharing. But I think just to reiterate the answer to Pete's question is that we maintain a majority of the royalty above $2 billion. And then on the milestones, we haven't given a lot of detail there.

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

Mike, we did say though in the press release that -- just to give you some context that -- or sorry, we said it in the slides that nearly half of the purchase price could potentially be returned in what we view as higher probability milestones. So that gives you a little bit of a context of the scale.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Okay. Great. And then that -- I hope that helps. And then the last piece was on the unmet need. So what we were trying to say was not-- and your question is a good one-- was not that we're taking a view on secondary progressive MS at this point. But that when we look into our claims data closely, what we see is that patients are on CD20's for a very long time. They're great drugs but we do see that patients do come off over time, and that population is at least one that will be pretty significant by the time by the time frexalimab launches. And if you the -- at the MS Conferences and Neurology Conferences, we are starting to see KOLs and others talk about some of the long-term side effects of chronic B-cell depletion over the long term. And so when we put that together, I think that's one potential interesting and attractive and large market for frexalimab. That being said, we think there's use well beyond that population as well. We were really trying to focus on that there's an unmet need here, a need for new mechanisms, and we think frexalimab is well positioned to be a part of the solution there.

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

Got it. And then my follow-up is just on the pace of deals. Can we expect the deal pace to pick up in the back half of the year? Recognizing that today's deal was phenomenal. And how might the higher for longer outlook on interest rates factor into the types of deals that Royalty Pharma is considering?

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

Yes. Chris can take the question on deal flow and what to expect, and I think maybe Terry can talk about interest rates.

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

Thanks, Mike, for the question. The -- we continue to see a very robust environment when we look at potential investments and we're super excited about the opportunity set in front of us. As you know, it's hard to predict when the deals will actually happen, but we're very encouraged with what we're seeing from a funnel perspective and the opportunity set in front of us.

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

And then on rates, Mike, I think what we've tried to reiterate is that our business is really sort of agnostic to the rate environment, and we've been sort of highlighting this with the deals that we've done, I think even including the deal today, which we think is going to generate really attractive returns, longer term. But I think that the key for us is that we feel like we're able to continue to maintain the same spreads above our cost of capital on new investments regardless of the rate environment. And so you'll see that as rates are sort of as they drifted higher, we are targeting slightly higher returns. And I think that, that really shows how our business really is agnostic to the rate environment.

Operator

Next question comes from Steve Scala with TD Cowen.

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

Just to be clear on frexalimab, it sounds as though type 1 diabetes and lupus are not part of the initial deal, maybe you can confirm that. But is subcu part of the initial deal? And what aspects of the molecule were the toughest for you to become comfortable? So that's the first question.

Second question, Chris, you mentioned milestones for this year. Apologies if I missed it, but did you mention the PDE10A inhibitor Phase 2 data from Merck, which is expected? And if not, why didn't you mention it? And then the last question is you've gotten the obesity question, I think every quarter for a while now. And every quarter, you say you're always looking.

But within obesity, does RPRX have a preference for oral versus subcu, muscle sparing versus not muscle sparing and degree of weight loss. So in other words is, more the better, always the case? Or is it not necessary for the masses, so you're not necessarily pursuing that?

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

Yes. Thanks for the question, Steve. I mean, just to clarify, I think for whatever reason, the terms of the frexalimab deal might be a bit confusing to several of you. But the license that underlies our transaction entitles us to receive royalties on all potential indications for the product. And that -- they're all included.

All we were saying is that for us to get comfortable with a really attractive investment with really attractive returns, we had to get comfortable that this product was going to achieve a good level of sales in MS. And we think that in MS, we're very comfortable with getting to the $3 billion plus range.

And then we see as upside other indications. And obviously, the two that are interesting and sort of being looked at our type 1 diabetes and lupus, and the terms of the transaction are such that we would be entitled to receive royalties on those. And there is in the structure in addition to the $525 million upfront payment, some sharing with the shareholders of ImmuNext above $2 billion of sales. But as we have said, the sharing is sort of percentage that is less than 50%. In fact, we've just said that we're going to retain a significant majority of all of the royalties above $2 billion. And also regarding the milestones, when we looked at the total milestones that the license produces, which is a little bit north of $400 million, we've identified about half of those 240 or so as high probability milestones that are tied to things like filing and dosing in other indications, Phase 3 trials and things like that, which we think is highly likely to happen. And we saw that as an attractive part of the transaction.

But let me turn it over to Marshall that can talk about Merck and then obesity.

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. So on Merck, Steve, nothing to interpret there. I think much of Chris' -- most of Chris' comments were really focused on the later-stage programs within our pipeline. As a reminder, 8189 has a Phase 2b trial that reads out relatively soon. And so that was maybe why it was not sort of discussed as prominently as some of the others, but we remain excited about the potential there and look forward to learning more.

Finally, in obesity, no, I think you're going to hear a similar answer in our approach there. But I think part of your -- but implicit in your question, I think, is the key thing, which is there are a lot of different approaches to what is obviously a very, very large and attractive market. And we're continuing to look at our opportunities within all of those different dynamics in terms of form of delivery, biology, et cetera.

And our view at a high level is that there's going to be opportunities for multiple types of products for different patients at different times in the management of their obesity, and that's going to create opportunity, and we'll continue to take the same opportunistic approach of looking for the right thing at the right time that makes sense for us and our partner.

Operator

One moment for the next question. The next question comes from Terence Flynn with Morgan Stanley.

Daniel Ziment - *Morgan Stanley - Analyst*

This is Dan on for Terence. I was just wondering on Tremfya in Crohn's disease at this point, kind of how you're thinking about market share capture and the indication and views on the competitive profile versus Skyrizi?

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Sure. Thanks for the question on Tremfya. So that's one that we remain really excited about. So I think with the recent updates from Janssen, where we were as part of our thesis when we added that to the portfolio and continue to be excited about the potential in IBD, the data so far that we've seen looks very compelling and competitive. And just as important in this space, as data is the strength of the marketer and the scale of their platform behind it. And so we're really happy to have this product in the hands of J&J, who is one of the biggest marketers in this space, and we think we'll be able to maximize the value of Tremfya in IBD in the IL-23 class, which is attractive and growing really nicely.

Operator

The next question comes from Di Zhao with UBS.

Di Zhao - *UBS - Analyst*

This is Di on behalf of Ash. We have one for frexalimab. It seems like CD40s have a complex history with thromboembolic events. So I understand from your perspective, like frexalimab may not have this issue, but has Sanofi provided you any data beyond what was shown in the Phase 2 that gives you like a strong conviction on assets here.

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

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

Marshall Urist - *Royalty Pharma plc - EVP of Research & Investments*

Yes. No, good question on the history of these antibodies. So -- as you might imagine, that history was something we looked at closely in the diligence and the team did a really good job in terms of the diligence process. We are -- we also had the luxury and the benefit of working with the ImmuNext team who did a lot of the work to generate frexalimab with all the learnings from the first-generation antibodies, which, as you mentioned, did have a safety issue.

But what got us comfortable, I think was two things I'd mention, which is, one, the engineering and the design of the antibody was designed with certain changes to engineer out that risk and certainly all of the basic science and preclinical work supports that. But more importantly, the proof is in what we've seen so far in -- from clinical data is that patients have been -- that there's a significant treated patient base at this time. As we mentioned, the MS data, these patients have now been treated out to a year, and we haven't seen that safety signal. So certainly, that was what went into our view that this was an issue with the first-generation antibodies, and we look forward to learning more about frexalimab's clinical profile in MS and other indications in the future.

Operator

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

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

Sure, operator. Thank you. And I think maybe just before we wrap up today. One of things that I just wanted to highlight for all of you listening, our shareholders and analysts, is that -- we actually had this great deal announced today that is, again, a demonstration of Royalty Pharma has been able to consistently identify really attractive potential blockbusters, marketed by super strong companies. And we have the slide that really shows that we've been able to consistently make investments in the most exciting new drugs in sort of every wave of innovation. And the other thing that we've done today is really spent time talking about this incredible pipeline that we have in unapproved products that we've sort of assembled over sort of a decade or so or five years of investing, and really try to highlight the very significant potential that Royalty Pharma has in all of this unapproved products that will, over the next two, three years, progress and result in attractive events as data -- that we have data readouts and then approvals. And I think, as I said, it's sort of an underappreciated part of Royalty Pharma that we're very, very excited about.

So with that I'd like to thank everyone on the call for your continued interest in Royalty Pharma. And again, if you have any follow-up questions, please feel free to reach out to George Grofik and his team, but thank you, everyone.

Operator

This does conclude today's conference call. Thank you for your participation. You may now disconnect.
