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EDITED TRANSCRIPT

RPRX.OQ - Royalty Pharma PLC at RBC Capital Markets Global Healthcare Conference

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Gregory Renza *RBC Capital Markets, Research Division - Analyst*

PRESENTATION

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

2024 RBC Global Healthcare Conference. My name is Greg Renza, one of the biotechnology equity research analysts here at RBC. And we're pleased to have Royalty Pharma with us today. And joining us from the company is the Chief Financial Officer, Terrance Coyne. Certainly, for the audience, if you have any questions for Terry, please feel free to ask, but we've got a great fireside chat set up. And Terry, it's great to see you, and thanks for being here.

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

Yes. Thanks for having us, and thanks, Greg, to you and RBC for allowing us to be here.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

Fantastic. Maybe, Terry, for those who aren't as familiar with Royalty Pharma and the story, just provide us a brief intro to the company, maybe some of your portfolio assets and just the outlook on biopharma royalties in general?

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

Yes. So we are the largest acquirer of pharmaceutical royalties in the world. We have a portfolio of around 45 products. We have a number of marquee blockbuster products in the portfolio like Trikafta, Vertex is leading CF drug and Tremfya, J&J drug for psoriasis and Trelegy, Xtandi, just to name a few. So we have a big, broad, diversified portfolio of royalties.

They provide consistent and growing cash flow that we then turn around and redeploy into new value-enhancing royalties. And so that's sort of the virtuous cycle of the business. We're really excited about the outlook for royalties right now. We've been deploying around $2 billion to $2.5 billion per year in new royalties.

We think there's a lot of growth ahead, and it's driven by the huge capital needs of the industry and the increasing role that royalties are playing as a way that the industry funds itself. So when I first started at Royalty Pharma about 14 years ago, it was really a niche market.

And it still kind of is, but it's grown a lot. And it really -- you can really feel like there's a lot of momentum from small, mid-cap biotech companies and even large pharma looking more and more at alternative ways that they can fund themselves. And we think we can play a leading role in that.

So we're really excited from a financial perspective. We guided this year to $2.6 billion to $2.7 billion in portfolio receipts, which is our top line. We have really high EBITDA margins, 91% to 92% adjusted EBITDA margins. So the business is very efficient from a cash flow perspective. And like I mentioned, we turn around and recycle that cash.

We also pay a dividend. We recently committed to growing our dividend, mid-single-digit growth. It's around a 3-ish percent yield right now. And we also have a share buyback program, but our #1 priority right now from a capital allocation perspective is buying royalties. And we see a lot of opportunities there.

QUESTIONS AND ANSWERS

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

That's a great intro. And certainly, we can appreciate the need in the market, the demand for innovation, what that requires. And as you mentioned, Royalty fits right in there with your resources and expertise. And as you've noted, as this is growing, it's also highly competitive. But maybe from a perspective that how you are approaching the vetting process for Royalty purchases, there's certainly a secret sauce, but what factors do you see as most impactful as you sort of you and the team funnel from your initial reviews all the way down to making the actual...

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

Yes. So we're really selective. We screen out a lot of stuff. I think at the top of the funnel last year was around 400 initial reviews and that kind of whittled down to 8 or so transactions in the end. And it's a pretty rigorous process. We've refined it a lot over the years. The team has gotten really good at sort of identifying things that deserve a deeper look and then trying to figure out what the next big products are going to be.

And we always take -- we really take a very high-level approach and look at the data, and the unmet need and understand if this is something that's going to be important to patients. And that's kind of -- that's the initial screen. And it doesn't mean that when we have those 400 things at the top of the funnel and they -- a lot gets screened out, it doesn't mean that they won't come back, maybe in the funnel next year and the next year and the next year.

But we -- sometimes if they're too early or we need a little bit more data, but we like to have a really deep relationships across the industry. You mentioned competition. We have around 60% market share in royalties. We're particularly strong in the bigger deals, where we have around 85% plus market share in the deals that are of $500 million or more.

And that's driven by our scale, by our cost of capital and the fact that we can make very large investments and it doesn't concentrate us, it diversifies us and it's because we have such a large portfolio.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

That's great, just hearing about that efficiency and that scale, but really that discipline that I think kind of rings true to the essence of how you're being so productive. Maybe coming off of a strong year of synthetic royalty transactions in 2023, it's about $775 million, maybe even twice in 2020. What role do you see -- do you foresee synthetic royalties playing in the biopharma industry over 2024 and even in the next 3 to 5 years?

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

Yes. And we really do. It's very hard to predict what any 1 year is going to look like. So we kind of take a like 3-, 5-year view. But we think that there's a lot of growth opportunities there. And it's just becoming sort of a mainstay of how leading companies, particularly companies that are advancing, are thinking about funding themselves and companies that are later stage, I should say.

So if you're an early stage Phase I company, Royalty is probably not going to be right for you. It's not going to be right for us, but as you get to Phase III or you're getting ready for a launch, the capital needs are so immense and company need to be creative and think about a lot of different sources of capital.

And we have some case studies where there's a number of very successful commercial companies, few that were ultimately acquired, where royalties made up around 25% of the capital that they raised over time.

We think that's a model for the industry, for all of the successful companies that are bringing products to the market because, like I said, the capital needs are so immense. And so we see a lot of growth ahead there. The conversations are very active. We never know when a transaction is going to actually happen. But just by how busy the team is, it's a really big growth opportunity for us.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

And even by never knowing when a transaction is happening, it's always important to land all the planes in the appropriate time and to coordinate and layer. Terry, you mentioned case studies, and I think the most recent with frexalimab is a great case study. And maybe walk us through that recently announced transaction with Sanofi.

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

Yes. So that's a really exciting product and development -- immunology product and development by Sanofi for targeting CD40 ligand and its lead indication is multiple sclerosis, but also has potential use in lupus and type 1 diabetes. We're really excited about that deal. So MS is pretty -- it's a space we know well. We've made 2 very large investments, invested close to $4 billion in MS over our history.

First one was with Tecfidera in 2012 and then Tysabri in 2017 so we know the space really well. And the unique thing about MS is that Phase II data tends to really translate -- particularly imaging data in Phase II really translates to Phase [II]. And so when we looked at frexalimab, the imaging data was really impressive, as good as the other high efficacy agents that are out there, but it's also not lymphocyte depleting, which is really unique.

And so it has what we think could be a very differentiated safety profile. So it's that kind of sweet spot of high efficacy, and the MS market has really shifted from moderate efficacy drugs like the old ABCRs to the higher efficacy drugs like the anti-CD20s. And we see this fitting squarely in that high efficacy category with the different potential differentiated safety profile. So we're really excited about it. Sanofi has guided to $5 billion of peak sales potential there on a nonrisk-adjusted basis.

We think MS alone should be north of $3 billion and there could certainly be in areas where it's better than that. And we think that the market -- the MS market needs alternatives beyond CD20s. There's going to be a huge group of patients that will have failed CD20 by the time this drug launches. It's not going to launch until 2027 or so. But there's going to be a huge group of patients that will fail CD20 by then and need alternatives and then also patients we think that where it can compete directly with those products as well.

So we're really excited. It highlights our unique approach where we can -- where with the team and with the experience, we can get a lot of confidence and make a pretty substantial investments around $525 million that we expect the cash that's going to go out the door for that. And take a really long view.

Amazing thing about this is, it's a product that's going to have royalties through -- around 2040, our royalty rate is high single digits to low double digits. And so you do the math on $5 billion of sales, so it could be a really big contributor to our business over the long term.

So -- and we're always layering in things like that. And what we did on our most recent earnings calls, we highlighted, we think we have this really unique pipeline. And we have 2 types of pipelines. We have the pipeline of deals we're looking at, and then we have the pipeline of things we actually own that are not yet approved. So this is the -- not yet approved but things we own category. And we have this really unique pipeline that we think is very underappreciated.

And we highlighted on our call that -- on our call last week that we think that the products in our pipeline could generate around $1.2 billion of royalties to us, which is a big contributor and something that will drive growth over the long term.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

And maybe I'm sticking with frexalimab and just related to the pipeline that you're referring to, not just for that asset itself, but all the others that you're speaking to that are sort of maybe near approval or later stage. With respect to frexalimab, you mentioned you're sort of anchored in MS, you've known it well so you sort of look at the time horizon of the current products and how the market is evolving.

And as a former sell-side analyst, you can certainly speak to all the market dynamics as you have, which is fantastic. But when it comes to diversifying and maybe tying to, your mention of, your pipeline, how do you and the team think about diversifying across a variety of therapeutic areas and even new technologies?

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

Yes. So it's a great question, and it's something that just sort of happens. It's not by design. We look at so many different deals. And we will add a lot of different types of therapies over time. And so that's how the diversification happens. We really -- we're trying to invest in the best products regardless of the indication or the technology. We made our first gene therapy investment last year as an example. But we try to be therapeutic area agnostic and really take a very high-level approach.

In this case, we know MS that wasn't the reason that we made this investment. We really like MS. We really like it as a market because we think it's a market that's sort of continuously been overlooked over time and -- where there are these cycles of innovation. And we think that there's room for more of that. And so that's -- it's an example of a market where we have a lot of -- we can gain a lot of conviction.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

That's great. And even with this asset, you mentioned durations in the 2040s, perhaps I don't want to misquote you, but just thinking about intellectual property and we certainly monitor and watch the strategics as they assess patent lives, it's always very risky and unpredictable. But what does it take to get you and the team comfortable with an asset that you're screening from an IP standpoint?

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

We spend a lot of time and money on IP due diligence because it's critical for us. We have to get that right. And we've gotten pretty good at over the years. And we're always looking for the overall strength of the patent estate, starting with the composition of matter patents obviously and understanding the geographical elements to it as well because it really forms the basis of our royalty curve, which forms the basis of our -- how much we're willing to pay.

So -- and there could be times where there's a little bit of uncertainty, and we can take a sort of risk-based approach, get comfortable with the returns that we're going to make under maybe a slightly shorter scenario. And then also with the hope and expectation that it is going to be that longer scenario. But we are always trying to sort of assess the various elements of risk there.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

And do you have a current average patent life of your portfolio? Do you have metrics to...

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

Yes. So -- and that's something we really focus a lot on. And so we're trying to maintain a weighted average duration of the portfolio of 10 years or more. And since our IPO in 2020, we've been at around 13 years, and we're continuing to be around 13 years. And you add a product that goes to

2040, and you can see how -- we're always adding things every year. And it's just sort of keeping that duration nice and long, which is what we really like.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

Great. Great. And then just with respect to certainly IP, but even with frexalimab, you mentioned not just doing it for MS, but also a variety of maybe indication expansion potential. Just talk a bit about that importance of that pipeline in a product from assets that you're looking at, even that's...

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

Great. Yes. I mean that's an area of where there tends to be -- products like that can tend to sort of drive outperformance where they can have multiple indications over time. One of the original investments that is before my time but we invested in HUMIRA. That's like -- there isn't a better example of pipeline and a product.

But Tremfya now in the portfolio is like that. And we see -- we're hopeful that this could be another product like that. I think we always want to be able to anchor to something that we have really high conviction in, where we can do a lot of work. And -- but then understanding where the upside could come from and sort of the mechanistic rationale even when maybe there's a little bit less data to go by. But we like having that optionality for sure.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

That's great. Maybe some macro questions for Terry. Just your view on the strategic financing environment, just given rate volatilities, reducing or not easing or not of rates from your conversations with companies in your view, how is this impacting your strategic plan?

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

Yes. So I think what we sort of have said is that there's been a lot of momentum towards companies thinking beyond equity for a while now. And royalties are at the top of the list, but also debt or other types of structured lending. So that's -- there's been a wave, and I think the rate environment has sort of accelerated that a little bit.

It certainly accelerated the conversations, and it's made every company realize that the markets are not always going to be there for them and they need to be thinking about a lot of different opportunities.

And I think for us that we felt that in terms of the call volume and the discussions that we've been having. But it was going to happen anyway. I think if anything, it just sort of accelerated that timing. We feel like, yes, the nice thing about our business is we can do well.

We can make good investments and generate attractive returns above our cost of capital regardless of the rate environment, and we can sort of move with the rate environment as rates drift up, our return expectations are going to drift up and vice versa.

So -- but I think that it's just accelerating the real opportunity.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

Okay. And what about the policy movement IRA certainly, exposures (inaudible) topic? And how does that affect Royalty Pharma?

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

Yes. So we're fortunate putting aside the impact that it's going to have on the broader industry, but for us, for our portfolio, we are pretty insulated. So the only product that in our portfolio that was on the list was Imbruvica for the initial list. And that product has faced some headwinds anyway.

And so it's certainly not -- it's not a growth driver for us because of some of the commercial headwinds that it's faced. But it's a great product and it's still going to be an important contributor.

But other than that, the other 1 that probably will be on the next list would be Trelegy. But that's a different kind of product because it's already deeply discounted. It's in a much larger patient population. And so 1 of the things that is really hard to assess right now is the sort of volume offsets that you're going to see from improved access and lower outpatient out-of-pocket costs.

And I think that, that's something that's tough to assess, but I think we're hopeful that there could be some -- for certain types of products, there could be some offsets there.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

Okay. All right. And maybe just some corporate questions for you, Terry. Just -- you mentioned that at the top of our discussion, just a commitment to growing the dividend. Just talk a little bit about the aspects of the portfolio and the platform that gives you confidence in the ability to deliver on those measures?

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

Yes. So we've guided to grow our portfolio receipts by 10% or more over this decade. So we are very confident in our ability to grow. And when we look at our capital needs, the business is fairly self-funding. But from time to time, we'll probably -- we will be likely in the debt markets, especially as like bigger deals come along.

And it's just with the consistent cash generation of our business, we think it's an important element to return some of that to shareholders. And we are confident that I think that our commitment to that growth speaks to our confidence in our ability to continue to generate cash, but also have plenty left to reinvest because that's the most important thing for us.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

That's great. I'm going to pitch it to the audience. Any questions for Terry before we break? All right. Well, Terry, thank you very much.

Great to see you. Appreciate the time.

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

Thanks very much.

Gregory Renza - *RBC Capital Markets, Research Division - Analyst*

Okay. Thanks, everyone, for joining.
