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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Geoffrey Meacham *BofA Securities, Research Division - MD*

PRESENTATION

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

Friends, I'm Geoff Meacham. I'm the senior biopharma analyst here at BofA, and we're excited to have Royalty Pharma on stage with us. So we have Terry Coyne, CFO; Marshall Urist, Head of Research and Investments, R&I.

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

R&I, yes.

QUESTIONS AND ANSWERS

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

Okay. So coming off a good 1Q for you guys. Got a new deal going with Sanofi. So maybe just refresh everyone here, maybe for those on the webcast and just the terms of that and kind of the diligence process that went into that?

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

Sure. So yes, we're really excited. We announced the acquisition of a royalty on a Sanofi product called frexalimab for \$525 million. We bought the royalty from the small private company who originally developed the product. And so just to catch everyone up, this is an anti-CD40 ligand antibody that's in development for multiple sclerosis in Phase 3, had some extremely strong Phase 2b data that was recently in the New England Journal of Medicine. And we'll have Phase 3 data in the 2027 time frame. And so we're really excited about that.

Sanofi has talked about it as having non risk-adjusted peak sales of over EUR 5 billion. The center of the thesis was really, though, the MS indication, which is where we have -- where all the -- most of the clinical data are. We talked about seeing that as a \$3 billion-plus opportunity alone in that one indication. And yes -- and we're really excited. So it's a big royalty, high single, low double digits. We also purchased a series of milestones associated with that, that could add significantly to the value as well. So we're excited to have it.

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

Yes. Yes, Marshall, just along those lines, I mean, I think since you guys IPO-ed and obviously, you guys have acquired royalties for decades. But this one, though, seems like -- it seems like the more recent ones are kind of pipeline and a product type of deals. So, I guess, the question is, I know the answer is probably not by much, but is the process for evaluating products like this in the past couple of years evolved over time, are you looking for different things as some of these -- some therapeutic markets sort of mature and have disruptive candidates that don't have processes -- royalties processes in place?

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

Yes. I mean one of the big changes over the years has been we've all seen the explosion of the number of sort of companies, new things across every therapeutic area. The speed of innovation has definitely prompted us to continue to evolve our diligence process. So there's no question that thinking about competitive landscape, not just today, but where it might be, what are real kind of moats around products in this business is something that we've had to do a lot more thinking on, I think, like everyone else around. But yes -- but definitely evolved, and we've -- that's why you've seen us, among other things, we've grown the team. We've grown our kind of research and investments team pretty significantly over the past few years. We've talked about investments in data and other things. And so the key thing is we want to stay at the forefront of accessing kind of every resource we can to make our diligence process as sort of robust and efficient as possible.

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

Right. Yes. And just really along those lines, when we -- years ago, when there's sort of a wave of new or mostly technology kind of IPOs, those were probably too early for you guys, right? Cell therapy, gene therapy, et cetera. But now you have a situation where a 50-patient Phase 1 is derisked, your next trial is a Phase 3. So it advances a lot faster. So does that open the aperture up a little bit more as we see more of those being validated in the markets?

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

So yes, there's two interesting themes there. I think the first one is, and we probably talked about this back when we were in the sort of platform IPO phase, was that we sort of saw that as an exciting leading indicator because those stories were going to mature, those platforms were going to have to be kind of focused into specific products. So that's much more in our wheelhouse, right? And I think we're starting to see that today. And you're right, the definition of proof of concept, what is derisked is definitely evolving with time as well. And I think that's why you've seen us get creative also in terms of deal structures. Are there ways when something is a little bit earlier, can we invest smaller amounts and as it gets derisked, we can kind of grow with the product and those kind of themes. We've done some of that. And I think that's definitely something that we'll continue to evolve with.

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

Right. Right. And Terry, I think the question has always been, is there another Vertex out there, right, a deal with a quite, very high magnitude but super high revenue potential? And historically, you guys have just dominated the bigger deals, right? Has that changed over time as some of these private equity and even like private credit kind of firms have expanded it more -- broadly into health care?

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

So we still feel like we have a major competitive advantage when it comes to the bigger deals because of our scale, because of our cost of capital, because of the fact that when we add a big product to the portfolio, it doesn't concentrate us. It actually diversifies us and because of the team and the reputation that we have. So we think we should continue to maintain a really strong share of the big deals. And there's a lot of them out there.

We never know, the stars need to align in terms of when there's a sort of willing buyer, willing seller. But they tend to come along every year or two. And we're always trying to figure out how we can make deals happen, and there's a lot of them out there.

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

And same goes for synthetics. Is that still an intended strategy to do more of those going forward?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes, for sure. There's -- and that's a huge opportunity for us, yes. We -- last year was a record year in terms of synthetics. I think we announced \$775 million or so of synthetic deals last year. We think we're still at the tip of the iceberg there. There's a lot of opportunity. The capital needs are massive. Every company now is thinking about royalties as one of the tools that they can use to fund themselves. And I think our position has been that if you're a successful biopharma company and you're bringing a product into Phase 3 or bringing it to market, you're going to need a lot of different sources of capital and royalties should be one of them.

Geoffrey Meacham - BofA Securities, Research Division - MD

Right, right. Yes -- and just take a step back, when you think about the -- maybe the negotiation process, I know you guys try to throw up a lot of the -- it's not trivial to develop these drugs. It's not trivial to commercialize them. You have the macro picture. But so I want to ask you is, do you find companies that are looking to sell royalties? Are they thinking that the IRA or elections or policy backdrop, do they blow it off and then counter to that, are those -- any of those items for Royalty's core business? Is that something you take into more consideration now that we're getting closer to it?

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

Yes. So every seller is a little bit different, I think, in the terms of the way that they think about it, what's incorporated in the forecast and not. I think we have a little bit of a different style where we -- even in bilateral negotiations, I think, we really prize trying to be open about where we might be different and engage in a conversation about it, rather than it being sort of a kind of a bilateral adversarial process, like I can't tell you anything about where my forecast is. We sort of welcome that. And it's great because it sort of drives dialogue. We learn something from our partners, they learn something from us. And so we tend to sort of try to push on that a lot, right, sort of get in a room and talk about it. You're right. I think from a diligence perspective, IRA -- beyond just IRA, the Part D redesigns coming up, other things are happening. And so there's no question that's become a core part of diligence. Every time there's scenarios around that, that we think through. And it's definitely ranges because I think we'd all admit, right? We don't exactly know exactly how it's all going to play out in the fullness of time, but definitely something that we're thinking about trying to do our best to put numbers around.

Geoffrey Meacham - BofA Securities, Research Division - MD

In your existing portfolio, how do you guys think about that looking to kind of next year and beyond?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

So we're pretty fortunate that we don't have much IRA exposure in the existing portfolio. The couple of products that we've talked about are Xtandi, Imbruvica and Trelegy. Imbruvica was on...

Geoffrey Meacham - BofA Securities, Research Division - MD

They're already on the way down anyway, right? Deceleration...

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. Imbruvica is -- doesn't -- it hasn't been a growth product lately. Xtandi is still growing, Trelegy is growing a lot. But they're all different. So -- like we've said Imbruvica has been declining and that is on the list -- the initial list of drugs that will be negotiated. For Xtandi, Astellas has talked about the impact of IRA in their 2025 number. So I think that, that's sort of understood at this point.

And then Trelegy is one where it's already -- it's a product for a much larger market, a lot of discounting already. So that might be one where the dynamic could be a little different than a high-priced oncology drug. And I think the thing that we still don't know about, the unknown, is the potential offsets of just improved access and more patients getting their scripts filled and the lower out-of-pocket costs leading to more volume. So I think that's a dynamic that's harder to assess today, but could be helpful in the other areas.

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

But as we go from 10 drugs to 20 to 50, I think the sort of industry fear is that first-in-class drug may affect, maybe a better fast follower, which is a significant option, right? So does that derivative come into your thinking when looking at the long-term view just that has a potential risk.

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

Yes, absolutely. We're thinking about. And it's kind of scenario-based. We don't know exactly what's going to happen, but we want to be comfortable that we can generate a return that we like under a range of scenarios, including scenarios where IRA puts pressure on the entire class as an example.

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

Right. Yes, yes. And I hate to ask this because this was the question for over a year, but the updated thoughts on the vanza. I know Vertex just they're going to use a PRV filing. We've heard, I think, a range of commentary coming from pulmonologists, CF experts about switching. But -- so talk about that in the context of what you guys have modeled? And then bigger picture, are there kind of steps along the way in the dispute that you'll be updating investors on?

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

Yes. So just to take a step back for people who don't know the background. So right now, we're entitled to royalties on all four of Vertex's products. And the biggest of which is Trikafta. There's three components. We receive royalties on all three of those components. Vertex has developed a new triple combination therapy that had data earlier this year, they have filed and used a priority review voucher that you mentioned. And there is -- we know that we're entitled to royalties on one component of that new triple. There's no new debate there, the tezacaftor component. And that would take our royalty on that new triple to 4%. The question is, are we entitled to royalties on the deuterated ivacaftor, deuterated Kalydeco portion of that new triple combination. We think we are. Our position is that deuterated Kalydeco is the same as Kalydeco, and we should get the same royalty rate. And Vertex has a different position. So the bookends there are either a 4% royalty rate or 8% royalty rate. And what we tried to do to help investors understand the potential impact of a range of scenarios is provide some sensitivities. And I think that what everyone is focused on is the downside. And so let's spend time there, is that if we're wrong and we're only entitled to a 4% royalty rate. And 50% to 75% of patients switch, then the impact to our outer year numbers later this decade, 2030, call it, would be a couple hundred million dollars of headwind. And so it's pretty small in the grand scheme of things in terms of our overall business. We think that, that range of switching still makes sense as sort of the scenarios to look at. And in terms of updates or any other thing regarding Vertex, we don't have any updates at this point. But the key for us is that we're continuing to add products every day -- or every quarter to the portfolio.

And if there is a little bit of a headwind from any one of the products in our portfolio, we've certainly had them in the past, and we'll have them again in the future. We think we're confident that we can keep growing through them because of the diversification of the portfolio and our ability to reinvest and find new exciting assets every day, like frexalimab, which Marshall was talking about, but we highlighted on our third quarter earnings call that we have a number of products in our portfolio that are not yet approved that we think will ultimately be approved and that have peak royalty potential north of \$1 billion. We don't think people are paying very much attention to that right now. But that kind of -- that solves a lot of any potential headwinds from anything in the portfolio as well.

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

And the potential headwind, I think, is well more than reflected in the multiple than the true fundamental impact on CF, right?

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

For sure. For sure, yes. We agree with that.

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

Is there -- but will there be -- if there -- if we do formalize this, I'm not sure of the legal strategies, and you're probably not going to talk about it here, but will there be like a cadence of things to follow on a docket? Or is this -- would you -- we expect this to be more of a private kind of...

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

This is probably just not -- we just can't really talk much about that at this point. I understand why you're asking.

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

I thought I'd give it a shot. So when you think about the, I guess, therapeutic areas, I mean, MS, neurology is one that you guys have historically done. Orphan is another, there's another big one. As these -- as innovations have come and has -- and as the -- maybe higher risk has also come and gone, what is the -- is there any sort of nuance to kind of the therapeutic areas that may have the -- maybe most ripe for bigger products for more innovation. Do you guys look at it through that kind of lens to basically top down as well as bottom up from a technology perspective?

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

Absolutely. I mean the way we think about it is, it's probably from both directions, right? We are very product focused, right? So when we do business development, planning and thinking about what are the products we want to be involved with, it is very much sort of a bottom-up, this product, this company, they're in this sort of fact pattern and situation with respect to capital and timing and everything else and that's how we sort of think about that strategically.

There is a kind of top-down thematic kind of overlay to all that. We've had some kind of bigger picture thesis views that we've talked about in the past and sort of when you look back, led some of our investments, like one of them is we said, well, there's -- pharma had skewed -- and pharma and biotech in general had skewed so far in the direction of specialty markets, right, that there had been kind of a movement away from the bigger -- some of the bigger high-volume, lower price markets that were heavily genericized. So that sort of led a lot of our interest in migraine or we've done several investments in schizophrenia and psychiatry with KarXT, Merck, as well as the Teva LAI for olanzapine that just had positive data last week is another one of our investments.

So those are the kind of things that we like. Another one we've talked about a little bit is broadening the scope of targeted therapy beyond how we traditionally think of it in oncology. So defining sort of patient subgroups, the Lp(a) investment was a little bit part of that, right, because that's a -- the thesis there was for everyone who doesn't know that's kind of cholesterol -- a novel cholesterol target that's sort of the next phase after LDL, which we know is pretty well treated at this point.

And so that's another one we are identifying a group of patients who might have outsized benefit to a given drug and Lp(a) is an example of that. So we kind of come at it from both directions that way.

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

Right. So one question is, you guys have done equity investments in a lot of the drugs that you've taken a royalty position in, likely, I mean, your interests are clearly aligned, right? You want the drug to be successful. If you look at some of the categories that have grown really fast, like I'm thinking like maybe GLP-1s now, hep C historically. There hasn't really been like a rising tide has lifted many different companies and many strategies. But you guys usually pick one drug in a class. So like I'm thinking like for HCM, right? I mean there are a couple of assets, like, has there ever been a focus to own more than one royalty in the same sort of therapeutic area, same modality? Or is that situation just doesn't come up very often.

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

Actually, we like making multiple investments in the therapeutic area that we like and are comfortable with. So we've done it in the past. Going back to the anti-TNFs, we owned three of them. Beyond the sort of fundamental HIV drugs looking at like even Xtandi and Erleada. They're very similar products for prostate cancer. So we absolutely will make multiple investments in the same class of drugs.

And it's -- honestly, it's -- we prefer to do that. If we find something we like, and we can leverage all the work that we've done, it's great for us. So yes, I think, wouldn't necessarily read into, oh, you only own one of them, so you don't like the class. It's probably more just opportunity driven.

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

I got you. And as the top line continues to grow and you guys are more successful with these do you look to equity stakes increasingly to try to generate more returns? Or -- because I just think it's -- it continues to be a higher hurdle, right? The drugs have to be bigger if they're making a royalty contribution, but the equity piece is more valuable, right, if -- I guess, over time?

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

It can be. And it's an element of our business. I wouldn't say it's a core part of the business or ever going to be like the driving force of the business we're Royalty Pharma, so it's going to be focused on royalties. But I think -- we view equity in the right situation as a good thing for our partners and a good thing for us. And so -- but it's usually in the context of a royalty deal where we might -- they might have a capital need that is call it, \$250 million, but they -- like in the case of Immunomedics, it's \$250 million, but they had a specific royalty rate in mind. And that rate to us was worth \$175 million, but we want to be there to fill that entire capital need, and so we can use equity, and that's an example. But the nice thing about equity in these deals is that, typically, it's -- the company is driven by the product we're getting a royalty and that's going to drive the equity. And so there's alignment there. And the equity is going to typically anticipate the performance of the royalty over the long run. So -- and it can kind of accelerate some of the returns for us.

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

That makes sense. Are there subcategories that you would you expect to see a real explosion? So I'm thinking GLP-1s across the board. In that case, does the process edit itself to maybe you take more risks, you go with an earlier-stage asset just to have kind of a horse in the race, so to speak, because by the time it gets to be Phase 2 or Phase 3, it's likely that there's not going to be a lot of engagement to sell a royalty.

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

Yes. On that one, I'd say, at a high level, the answer to that's no. We're not going to go out necessarily and say, we must have an obesity asset because we get asked about it a lot and everyone is very much focused on it as a class. But I do think we've shown over time that we're disciplined. We look at a lot of things in this space, and we will certainly be aggressive when it makes sense. The other thing that we've been doing though is kind of -- I mentioned it briefly before, is evolving our structures and how we can work with companies in different ways.

So are there ways where, yes, we can do something small when something is a little bit earlier stage, but then it's good for us, it's good for the partner because our partner knows they have a deep pocketed funding partner who's going to be there alongside them all the way through. And we like it, obviously, because we can get involved in something smaller and grow with it over time as it becomes derisked. So there's lots of different structures as we've evolved that we've kind of dealt with or how can we work in areas where maybe there are opportunities at an earlier stage.

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

Right. And are there ways, Marshall, I know you and your team have had a very deep knowledge, you do a lot of diligence on not just drug classes, therapeutic areas. Is there -- how can you -- have you thought about ways to leverage that knowledge, right? I mean you take that into your conversations with potential royalty sellers, right? But is there any way to I mean leverage that economically, I'm trying to think because it's the -- it's sort of the intellectual firepower, but it's -- you're keeping that internally, but I don't know how you can monetize it?

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

Well, I think the biggest way we monetize it is through the way that we use it to engage with partners, right? And we're -- I think one of the -- part of the vision for what we're doing and as we build this diligence infrastructure is to be kind of more than a capital provider is start to be -- yes, we bring capital, but we also bring strategic value to it as well through the work that we do, helping companies think through market -- their market sizing development plans, that kind of thing based on all of the work that we do. So we do a lot of that today.

And we strongly believe that when you bring something more to the table than just capital, right, that is monetizing it, right, because we're going to get a somewhat more favorable deal, will be in line to grow that relationship with that company over time because we've developed a real relationship that's not just kind of a financial transaction.

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

Right. And I think you guys have done -- have been part of a few like M&A transactions, right, where the royalty kind of kicked off was you gained some economics for that?

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

Yes. I mean we've seen it happen in multiple ways. Like you think about the experience with Biohaven is a great example, right? We've worked with Cytokinetics now over two deals over time. So we've supported MorphoSys when they did their deal for -- in M&A, when they did their M&A deal as well. So yes, that kind of relationship building, I think, is kind of core to our strategy. And I think some -- way it's something that really differentiates us.

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

Got you. Terry, from the capital deployment side, I know the buyback, you guys talked about that initially, I don't know, like a year or so ago. I mean that was obviously the show conviction that you still have -- I mean, that you have in the business, but you haven't bought a lot of that stock back.

What's the -- I know you're now committed to the dividend, like you haven't been before, but there was sort of the language on the first quarter call about that. So what -- is there something to read into like the buyback? Or is it just, look, we want to preserve as much capital for deals and that's our regulator?

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

Yes. So I think what we've said is that our number one priority in terms of capital allocation is buying new royalties. And we've been really busy, and there's a lot of opportunities out there. And so I think for us, we always have to look at that in buying back stock in the context of some of the opportunities that we have that we're looking at.

And it's a balance. And so we like it as a tool. It's a tool that I think we will continue to use over time. But again, the number one priority has always been buying royalties. But we did on our first quarter call, you mentioned we -- and we've been growing our dividend every quarter for -- since we've been public, but also for the 20 years prior to being public, we grew the dividend. So -- but we just wanted to sort of make sure people understood what to expect and that's -- that we will continue to grow the dividend by mid-single digits going forward.

Geoffrey Meacham - BofA Securities, Research Division - MD

But you don't have sort of a yield target in mind for...

Terrance Coyne - Royalty Pharma plc - Executive VP & CFO

No. No. It's -- I think it's just sort of the growth target right now.

Geoffrey Meacham - BofA Securities, Research Division - MD

Okay. Awesome. Thank you, guys.

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

Thanks, Geoff.

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