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OVERVIEW:

Company Summary

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CONFERENCE CALL PARTICIPANTS

Asad Haider *Goldman Sachs - Analyst*

PRESENTATION

Asad Haider - *Goldman Sachs - Analyst*

All right. We're just about at time. Let's get started with our next session. It's a pleasure to have the management team of Royalty Pharma here with us, Chris Hite, Vice Chairman; and Ashwin Pai. Thank you for being here. Welcome.

So I guess, let's start high level. Can you maybe just start by framing Royalty Pharma for those of us who might not be that familiar with the story? Provide a quick story of the sort of arc of the business and how it's evolved to where it is today.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

Sure, and thanks again for having us. So Royalty Pharma has been around for about 30 years. It started off with our current CEO and founder who's also the Chairman of our Board, Pablo Legorreta, who founded the company really on the basis of buying existing royalty streams that happen to be at hospitals or universities or foundations, taking elongated risk of the commercial performance of the drug and giving them upfront capital that they could recycle for more R&D or whatever they wanted to do with it.

So that was the basic foundation of the of the company. And we still do that. We went public in 2020, and we still buy existing royalty streams from universities and foundations, et cetera. The company has also morphed where we'll create royalties that don't exist today, and we can do that by simply contractually investing in R&D programs or providing capital for companies that need the capital to launch drugs, and in exchange, we'll take what we call a synthetic royalty.

So we still buy existing royalty streams. As everyone knows, the business of the drug industry is very fragmented on the R&D side. On average, every drug that gets approved by the FDA has about two royalties associated with it, associated with licensing agreements or collaboration agreements, and so that's a very deep marketplace, but we also now have really advanced our business where we'll co-invest with R&D like with Merck and Pfizer and Sanofi, Teva, Biogen, where we co-invest on their R&D programs and create a royalty stream in exchange for upfront capital.

The business last year did about $3 billion of revenue. We have 92% margins, EBITDA margins, we're investment grade rated, and publicly we talk about deploying $2 billion to $2.5 billion a year in capital.

QUESTIONS AND ANSWERS

Asad Haider - *Goldman Sachs - Analyst*

I guess maybe just staying at a high level, and that's very helpful, what is the fundamental thesis for why investors should be buying Royalty Pharma today in the current environment? What are the advantages of investing in Royalty Pharma compared to a diversified, for example, pharma company or another diversified financial instrument vehicle?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

Great question. Royalty Pharma, as I said, it's been around 30 years. We have a really a proven track record of generating very attractive, unlevered returns. So we're historically over the last 10, 15 years generated unlevered returns around 12%, 13%. When you add leverage to that, those returns are quite higher, and when you compare us to a pharmaceutical or a biotechnology company, we are not burdened by existing therapeutic area preferences or franchises. We invest in any therapeutic area. We're not burdened by manufacturing or any of those costs, and we can play what really is what's an important unmet medical need and invest in really drugs that are high growth potential, really solving the problem of the patients, so I think we can be much more nimble in today's environment, especially with all the things going on around today's environment. And from comparing us to an asset manager, I'd say that once again, I go back to just our investment returns. Alternative asset managers have grown their businesses tremendously, raising trillions of dollars under management. Now they've got to put that money to work. Let's see how they do putting that to work, whether they can generate returns for their LPs the way we have. We've got to demonstrated a track record and the industry is so fragmented and so capital intensive, we like where we sit.

Asad Haider - *Goldman Sachs - Analyst*

You touched on this briefly, but I want to double click on it a little bit more, just given the current policy uncertainty in the external environment. I mean, this is a question that we just are feeling compelled to ask all of our companies, a lot of the industry is involved in ongoing policy discussions. So I guess, how does this impact the way you guys are operating and are you actively involved in attempting to shape these policies in any way and which specific issues are you most focused on?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Yeah, so you're right. I mean, we're obviously watching this really closely. I think our business has the benefit of being diversified US versus ex-US, commercial versus Medicare versus Medicaid versus Part B. We're very broadly diversified therapeutic area, et cetera. So I think we feel good about where we sit, but we've got to kind of watch where this goes.

Tariffs is another thing that obviously people are focused on. Tariffs happen upstream of where we sit, so our royalty comes on the net sale of the drug, so I think we feel good about where we are with respect to that.

Asad Haider - *Goldman Sachs - Analyst*

Let's talk about the strategic integration that you just went through, as what was previously an external manager. Can you just maybe perhaps provide some background as to what is the thinking behind that, why this was done, and how does it change the business from a shareholder's perspective?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

So Royalty Pharma for those in the audience that maybe didn't know, we were externally managed, so we went public in 2020. The publicly traded company, RPRX, Royalty Pharma, owned all of the assets, all of the royalty streams, had a Board of Directors, and had a contract to be managed -- the investment process to be managed by a separate company called RP Management.

All of the employees, the investments team, Ashwin and I, we all work for the external manager. You see it, you see that a lot with say the REIT industry as an example, and there was a 10-year contract with the public company. And when we would go see our investors, a lot of them would say, we love the management team, you guys have an unbelievable track record, I talked about the track record already. But when we buy public stocks, we want to know that we're buying the management team and in this case, the public stock is the assets in a contract with the management team, and how do I know in 5 years or 10 years that you will still be with the public company? So for us, it was sort of blinking green, like, okay, this is a pretty easy answer. The shareholders really would like us as part of the public stock, so we had a negotiation with the Board, came to an agreement and we folded in the manager. We announced the deal at JPMorgan in January and closed it in May. The shareholder response has been tremendous. Immediately the stock reacted very positively and now when we see shareholders, they're very happy because they're saying, okay, I got the full cake here, the cake and the icing, and that's some of the background.

Practically speaking, it really didn't change anything. We took all of our investments to our public Board when we were externally managed. The Board is a fantastic Board. Henry Fernandez, who's the Lead Independent Director, is the CEO and Chairman of MSCI. We have a lot of biotech execs on there. Ted Love as an example, who's the Chairman of BIO. Cathy Engelbert, who was the CEO of Deloitte. Incredible Board. So practically speaking, nothing's changed, but it is an important fundamental change because there is no external manager any longer. We all do work for the public company.

Asad Haider - *Goldman Sachs - Analyst*

Very clear. Let's maybe move on to the business and talk about the current portfolio, the deal funnel, and maybe just your investment process, how are you approaching things right now in this environment and what are you looking for?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Yeah, look, we continue to be very active. Obviously, there's been an equity market volatility. We're active in all environments. 2021 was a really strong equity market. We were active. It's been more challenging for the equity markets now. We're still active. All therapeutic areas, we're really bottoms-up product people. We're just focused on how interesting of a product it is, what is the clinical data, what's the competitive profile, where does it fit in the commercial marketplace? Therapeutic area agnostic. Stage of development really focused on things that are post-proof of concept and beyond. We've done a lot of things for marketed products, as Chris was talking about in his opening remarks, but obviously, post proof of concept and beyond is where we like to be.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

Yeah, look, I mean, last year, the top of the funnel was 440 opportunities. So when you think about that, how many business days there are in a year, it's a lot, right? So the whole ecosystem has changed. Both Ashwin and I were bankers. Ashwin for about 20 years, myself for about 25 years, serving the biopharma sector, and I didn't -- I was never out discussing with the CFO or the Board of Directors or the CEO of a company, hey, you ought to think about doing a synthetic royalty to raise capital. I mean, that just never happened.

I joined RP in March of 2020, so five and a half years ago. And I really believe for a lot of reasons, there's been a dynamic shift in the biopharma sector where people, as everyone knows, it's a super capital-intensive business. So if you're unprofitable biotech, you're really only raising capital through partnering with pharma or selling equity. And either way, it's pretty big consequences, right? If you're partnering with pharma, you're losing the -- you're typically losing US commercial rights or at least half of them.

If you're selling equity, you're diluting your shareholders across all of your assets 10% to 15% dilution at pretty significant discounts to where the stock was trading. If you think about royalty financing, I'm talking like a synthetic financing, what we talked about is for unapproved products that were our cost of capital that our returns we're looking for are in the mid teens.

And when you think about that, any CEO in the sector who thinks they're going to have a profitable biotech company where they launch a drug, do you think that they're not thinking their stock is going to double or triple or from wherever they were pre-approval? Of course they do. If you think about that cost of capital selling 10% or 15% of your company at that stage of development, the cost of capital is enormous.

And I think when, us going public, us being on the road, really marketing how these work, us having large shareholders who, when they see the biotech companies come to see them, our shareholders are saying, why are you diluting yourself by 10% or 15%? You guys should be doing a synthetic royalty. Look at the cost of capital difference.

So there's been a lot of pushes and pulls in the industry, and now I'd say, and bankers, by the way, the investment banking community has now formed their own little teams where they're out calling and suggesting the same thing. So over the last five, really six years, it's been a tremendous change in the biotech space where they say you've got to raise capital. Let's go get Royalty Pharma or somebody else to fund our Phase 3 development or give us the money to launch the drug in exchange for a single digit royalty.

So it's been a really big difference and that's why the top of the funnel last year is 440 opportunities. I think we did seven or eight deals for about $3 billion. We could have done 440 deals if we wanted to. Large pharma, we also fund people saying like, you've done a deal with Merck, you've done a deal with Biogen, you've done a deal with Teva. They don't need money. They don't need money, but they want to risk share. And they want to risk share without having to partner again, so we're willing to risk share. We don't need a JDC. We don't need a JSC. We give them the capital. We trust what they're doing, and it allows them to risk share on their development pipeline. So it's a tremendous benefit for -- it's really win-win. That's what we really like to say with pharma and biotech.

Asad Haider - *Goldman Sachs - Analyst*

So I guess to contextualize then as we think about the growth algorithm, it's a simple formula just that increased capital deployment will lead to revenue growth?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

So it's interesting, right? I mean, pharma, we live in a -- this industry that we're all operating in is a really tough industry, right? You spend 5 or 10 years and a billion plus dollars to get a drug approved and then you have a finite life in which to realize the return on that drug. We're not any different than that. We buy royalty streams and drugs, and those drugs all have patent lives.

It just so happens that we have 45 royalty streams and we have more blockbusters, the royalties we have on blockbusters, we have more blockbusters than really any large pharma and our average duration of our entire portfolio is about 13 years. So we have a really long life portfolio, very highly diversified.

That being said, when we invest $2 billion to $2.5 billion a year, it's for the future growth, right? We're investing pre-commercial and commercial. Historically speaking, every billion dollars of investment leads to about $150 million to $170 million of revenue five years later. So when you think about that, we just sort of stack sort of year after year, new assets and those assets grow at various rates because some might be Phase 3 and some might be just launching. And it just adds to our compounding growth story. So the short answer is yes, that capital deployment, we've historically been able to once again demonstrate very clearly just the compounding growth effect of adding and stacking those royalty streams.

Asad Haider - *Goldman Sachs - Analyst*

On that $2 billion to $2.5 billion per year over a five-year horizon, it seems like you're currently outpacing that. So can we expect updated targets?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

It's a great question. We have an Analyst Day, September 11. Maybe we'll update something there. I don't know, but I think we've been -- last year we did $2.9 billion of capital deployed. The one thing that we do like to say to people is, don't look quarter to quarter or really even year to year. Just over a multi-year period, that's what we're going to deploy because it's hard to predict exactly -- we're negotiating with large pharma, we're negotiating with large biotechs on funding and those can be long negotiations, but we're very confident in that capital deployment target. We're way ahead of it. When we went public, it's interesting. We went public in the summer of 2020. We said we would deploy $7 billion over five years. We're at like $14 billion since going public, or $13 billion, somewhere in that range and so we had to update our guidance at our last Analyst Day from that initial figure of $7 billion over five years to $2 billion to $2.5 billion a year and we're once again eclipsing that pace. So we'll see.

Asad Haider - *Goldman Sachs - Analyst*

Look forward to the Analyst Day then. Let me take a quick pause there and see if any questions from the audience.

Let's maybe double click on the portfolio then. Just characterize the complexion of your existing portfolio concentration, therapeutic area that you're in and stage of development?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Yeah, look, it's a diversified portfolio. As Chris said, there's 45 revenue or royalties that we're receiving. It's across all therapeutic areas, oncology, neurology, cystic fibrosis, inflammation. It's really a bottoms-up kind of process that we go to figure this out, so we're just focused on the product and how interesting it is. We're not looking top down and saying, hey, we're not an oncology or we want to be more an oncology. It's not that, it's much more of a bottoms-up opportunistic approach. In terms of stage of development, most just by virtue of the way our portfolio has been over time, most of it is marketed products. We're receiving close to $3 billion of revenues on marketed products, but where we see interesting opportunities post proof of concept, we will do that. Frexalimab is one good example. Sanofi is in a Phase 3 trial right now. They've said it's got $5 billion of potential, for example, I mean that's just one example. So where we see those types of large potential royalties down the line, we'll do that. A couple other ones. The Lp(a) class, olpasiran and pelacarsen. Pelacarsen Phase 3 will read out next year, olpasiran will be after that at some point, but obviously, huge unmet need in cardiovascular. We did it on the basis of Phase 2 data. So where we see opportunities like that, we're very interested in deploying capital.

Asad Haider - *Goldman Sachs - Analyst*

How's the deal funnel tracking for 2025 relative to last year?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

I think it's tracking probably where we'd expect it to be. We've increased it every year since I think it's up 150% since 2019 when we did our -- right before we did the IPO, so I think we're on that type of pace.

Asad Haider - *Goldman Sachs - Analyst*

And I guess geographically, what does your sourcing effort look like? Sourcing geographically.

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Geographically, yeah, absolutely. Innovation happens globally in biopharma, so we're global investors.

Asad Haider - *Goldman Sachs - Analyst*

And how would you characterize the competitive environment right now for deals? And any comments on who you run into most frequently?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Yeah, I think there are the usual suspects that you run into in this type of situation. We have the advantage of being permanent capital, right? So when we do deals, we don't have any kind of metrics by which someone has to return all their capital back in five years or seven years like you might with a private fund.

And if you have to return all your capital back in that short amount of time, it leads you down a different deal structure from the perspective of the biotech or the pharma, which means you've got to pay heavy milestone payments back. It's not really a long-term investment, and what we've found is if someone has just gotten a drug approved, the natural thing to do is, one, invest heavily in the launch, not pay back a financial investor. And then two, over time they want to grow the company and start doing business development and adding things to come into the pipeline. They don't want to be paying someone back, right? So I think there's a natural fit with us and as Chris was saying, our weighted average portfolio duration is 13 years. We're long-term investors, when companies are thinking about making investments in R&D, they are long-term investors, and they think about building a company, it's not sort of a two- or three- or five-year process. They've got to think a decade out. And so there's really a natural alignment with us and our partner.

Asad Haider - *Goldman Sachs - Analyst*

Can you maybe talk about reasons why deals wouldn't make it through the funnel?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

I think it's sometimes things are just too early. Sometimes things -- the data doesn't look great, or the competitive landscape needs to be sort of sorted out. At times, the regulatory guidance can change for certain indications. You don't know what the regulators are going to say or have confidence in or the company needs to go and evaluate that.

Sometimes when things are marketed, it's a really difficult competitive environment. Something else may be going off patent and how is that going to impact a drug that's launching right now? So as Chris was saying, we screened over 440 things and we did 8 transactions, so call it, 432 reasons why something didn't work, but it can be for a whole host of things.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

We can make proposals that gets cycled back like the next year like in our funnel sometimes we'll list the number of proposals we made and then people were like, what happened? Did you lose it to competition? Sometimes it wasn't the right time for whatever reason, it cycles back to the next year. Something could have advanced further in the clinical stage or the regulatory stage or whatever the case may be. So there's a lot of reasons why sometimes we don't do a transaction. I think the key thing for us, what we always really harp on is we're going to maintain the bar very high and so that's why we always are very cautious to say, if we didn't do a deal in the first quarter or second quarter or whatever, we're going to maintain a high bar. No one feels the pressure, oh my goodness, we didn't do a deal. We need to do one this quarter. No, we're going to maintain super high standards to ensure that we generate a very attractive rate of return for our shareholders.

Asad Haider - *Goldman Sachs - Analyst*

In the context of a synthetic royalty providing financing to companies, you've always -- you've noted that given the high-quality counterparties, these companies can raise capital themselves. So it seems like there must be inherently a win-win for you and the counterparties. So I guess what are some of the key benefits for your partners?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Yeah, I think when you think about equity versus equity, it's just saving equity dilution. Not having to worry about the share price the day that you do the deal and you're not liking it, so there's pretty clear benefits there. I think one other benefit is just size, especially in an equity market volatility environment that we're seeing right now. The deep pool of capital may not be there, and if you're a company thinking about Phase 3 trials or launching a drug, it requires hundreds of millions of dollars, so we can come insize.

And then I think another thing is that we're also -- we're not debt, right? We want our partners to grow, we're incentivized to grow with them over time. We share the upside with them. We share some of the downside with them, but we're not debt in terms of trying to really constrain a company via covenants and some of these other types of parameters.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

Yeah, the only thing I would add to that is the other source of capital, as I mentioned at the beginning, is a potential partnership with pharma and so if you're XYZ biotech company and you're deciding between partnering in Phase 3 or going alone, I mean, partnering with pharma, you want to avoid that for as long as possible to try to reap the best deal you can and so that's another key consideration.

We're a deep source of capital that allows people to maintain the economics, especially in the US, for as long as possible.

Asad Haider - *Goldman Sachs - Analyst*

Maybe we can unpack your investment process a little bit more as you think about your investment process. What are the differentiated tools, data, people, process that RP brings to bear?

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

We've got 30 people on our research and investments team. It's a team with deep experience as Chris was saying, we've got close to 30 years institutionally, but the people that are evaluating these investments have been doing it for a decade plus in almost all cases and substantially longer. In terms of data and tools, I think we've talked about this before, but we have a strategy and analytics team that is really focused on analyzing claims data, for example. Trying to validate market sizes, how long a patient stays on therapy, what therapies they've been in the past, how they cycle on and off, so that's really a heavy investment effort that we've made to try to get access to proprietary data.

And then I think it's -- when you've been around various therapeutic areas for so long, you have KOLs that you trust, you have consultants that you trust and have a track record with and know who to call for very esoteric questions that can come up sometimes. So I think it's just a combination of a lot of different things in a culture that kind of has generated this over three decades.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

The one thing that I'll just add to that is a lot of the questions have been around -- edges around competition and why would someone want to partner with us. And I think one thing that we probably don't talk enough about is relationships. Ashwin was a banker for 20 years, ran Morgan Stanley's West Coast. I ran Lehman Brothers' healthcare group, and then Citi's for over 12 years.

And you get to know people and you form deep relationships and those relationships really matter. And when you're sitting across the table from somebody that you've known for 20 or 30 years and they're debating maybe between you and another counterparty or something, it makes a big difference. And I think we really -- Royalty Pharma in general has a great reputation and it is true of really wanting to create the win-win and being a good partner. And those relationships, I think, really do stand out to help us win.

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

I mean, we've done, I think, the repeat transactions which we've talked about. We did four transactions with Biohaven. I think we've done three transactions with Cytokinetics; those are very long standing.

Asad Haider - *Goldman Sachs - Analyst*

One of your corporate slides shows differences of the process from initial reviews and CDAs to proposals submitted and executed transactions. So I guess. just talk to us about the thresholds of moving through each stage.

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

I think it's not a very rigid thing. I think we've got to do work on the product. I think it's got an interesting place in the market, see how advanced it is. We are always -- I think Chris made a great point earlier, which is sometimes things are too early, but we think it's a really compelling program if it advances a little bit. We might do a fair amount of work on it then to come to that view but maintain a dialogue with the company that happens quite a bit.

So I don't think there's a very rigid parameter for something moving from one stage to the other. We're pretty opportunistic and focused on the long term, and so something might be too early, and that's okay.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

No, I'd say that's exactly right. I'd say one other thing around our process is it doesn't -- 30 people on the research and investments team doesn't sound like a lot, but what we do really well is leverage outside industry consultants. And so I know in our last Investor Day deck, we gave an example where I think -- was it 80 people, Dana? I'm looking at Dana.

I think in one transaction where we -- between sort of CMO and just every sort of industry expert you can imagine really weighing in and leveraging that expertise to come up with sort of the risks associated with the investment, and I think establishing those relationships is also really important as well, and we really have done a great job of culturing that expert network.

Asad Haider - *Goldman Sachs - Analyst*

We only have a couple of minutes left. I guess looking forward, what are the key events for RP that we should be focused on for the balance of the year and then maybe even going into 2026?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

I think it's just continuing to execute on the plan. I think we really want to make sure that we invest in high-quality assets with great marketers for unmet medical needs to help patients, focusing on generating a reasonable return. That's a win-win for us and the partners and just keeping our head down and really sort of focusing on delivering those really strong deals for our shareholders.

Asad Haider - *Goldman Sachs - Analyst*

I think we're just -- any further questions from the audience?

Unidentified Participant

One thing I want to understand is how your deals are actually sourced. In other words, do companies approach you or do you have people approach companies, and what is the percentage of each?

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

It's both. It's a great question. So the question was how are your deals sourced? Do they approach us or do we approach them? Once again at our Investor Day deck, which is on our website from 2022, basically, we did a pie chart that showed 2/3 of the top of the funnel came in unsolicited, and 1/3 of the top of the funnel with us initiating the contact and then for the deep diligence where we actually signed a CDA and really dug deep on the assets, it's the inverse of that.

So 2/3 of the deep diligence, we actually initiated the contact, and 1/3 of the deep diligence was people that came in to us unsolicited. Now those numbers were from three years ago. That gives you a general sense. I'd say it's even been more institutionalized now in the sense, as I mentioned, like the banker universe and large shareholders pushing pharma and biotech to talk to us.

I'll be curious, we'll update those numbers, but it's probably around the same general percentages.

Asad Haider - *Goldman Sachs - Analyst*

All right, we're just at time. Thank you very much, Chris, Ashwin. Really appreciated that conversation.

Christopher Hite - *Royalty Pharma PLC - Vice Chairman, Executive Vice President*

Thank you very much. Take care.

Ashwin Pai - *Royalty Pharma PLC - Executive Vice President, Investments*

Thank you.
