REFINITIV STREETEVENTS

EDITED TRANSCRIPT

RPRX.OQ - Q2 2025 Royalty Pharma PLC Earnings Call

EVENT DATE/TIME: AUGUST 06, 2025 / 12:00PM GMT

OVERVIEW:

Company Summary

REFINITIV

CORPORATE PARTICIPANTS

George Grofik *Royalty Pharma PLC - Vice President - Head of Global Investor Relations*

Pablo Legorreta *Royalty Pharma PLC - Founder & Chief Executive Officer*

Marshall Urist *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Terrance Coyne *Royalty Pharma PLC - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Christopher Schott *JPMorgan Chase & Co - Analyst*

Terence Flynn *Morgan Stanley - Analyst*

Jason Gerberry *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Umer Raffat *Evercore Inc - Equity Analyst*

Michael Nedelcovych *Cowen and Company LLC - Equity Analyst*

Ashwani Verma *UBS - Analyst*

Geoffrey Meacham *Citi Infrastructure Investments LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Royalty Pharma's second-quarter 2025 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 - Vice President - Head of Global Investor Relations*

Good morning and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's second-quarter 2025 results. You can find the press release with our earnings results and slides to this call on the Investors page of our website at royaltypharma.com.

Moving to slide 3. I would like to remind you that information presented in this call contains forward-looking statements that involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from these statements. We refer you to our most recent 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 results, and 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; and Terry Coyne, EVP, Chief Financial Officer.

Pablo will discuss the key highlights, after which Marshall will provide a portfolio update and Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session in which we will also be joined by Chris Hite, EVP, Vice Chairman.

And with that, I'd like to turn the call over to Pablo.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Thank you, George, and welcome to everyone on the call. I am delighted to report a successful quarter of execution against our vision to be the leading partner funding innovation in life sciences.

Slide 6 summarizes our strong business momentum in the second quarter. In terms of the financials, we delivered 20% growth in Portfolio Receipts, our top line, to $727 million, and 11% growth in Royalty Receipts to $672 million. This was ahead of the guidance we provided last quarter for Portfolio Receipts of $700 million to $725 million due to the strength of our diversified portfolio.

Turning to capital allocation. We purchased another eight million shares in the second quarter, taking our total share repurchase this year to $1 billion. At the same time, in the second quarter, we deployed capital of just under $600 million on value-creating royalty transactions.

Looking at our portfolio, we completed the acquisition of our external manager, which combined our leading royalty portfolio with our valuable investment platform to become an integrated company, an important milestone in our evolution. In addition, we announced a groundbreaking collaboration with Revolution Medicines, which we believe represents a new funding paradigm for innovative biotech companies.

Under this agreement, we will provide up to $2 billion of flexible funding anchored by a synthetic royalty on the exciting Phase 3 oncology therapy, daraxonrasib. We also received encouraging clinical news on several portfolio therapies, including positive Phase 3 results for Gilead's Trodelvy in first-line metastatic triple-negative breast cancer.

Lastly, we are pleased to raise our full year 2025 top-line guidance. We now expect Portfolio Receipts to be between $3.05 and $3.15 billion, which represents growth of around 9% to 12%. We're also improving our guidance for full-year operating and professional costs to a range of 9% to 9.5% of Portfolio Receipts compared with around 10% previously. This reflects immediate cost savings of our internalization transaction.

Third, we'll provide further guidance of the significant savings in operating and professional costs for the remainder of the year and beyond. 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 consistent track record of average double-digit growth since our IPO. As I noted earlier, we delivered 11% growth in Royalty Receipts in the second quarter. This takes us to 11% growth in the first half of 2025, which supports our confidence in delivering our updated full-year guidance.

I would also highlight that we have delivered this impressive track record of consistent growth, irrespective of the economic and financial markets backdrop. This really demonstrates 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.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Thanks, Pablo. I want to focus today on our innovative partnership with Revolution Medicines.

Slide 9 gives a high-level view of our deal. We will provide up to $2 billion in long-term funding that will help the company aggressively pursue clinical development and commercialization of its practice-changing therapy daraxonrasib in RAS-mutant pancreatic and lung cancers. Of this amount, $1.25 billion is comprised of synthetic royalty funding, including $250 million we've already paid upfront. The remaining $750 million is senior secured debt that becomes available over time, beginning with FDA approval.

Royalty Pharma expects to generate an internal rate of return in the teens, with peak potential annual royalties in excess of $170 million. We and the street see daraxonrasib as a multi-blockbuster based on stellar Phase 1 efficacy, and we anticipate the first Phase 3 readout in second-line metastatic pancreatic cancer in 2026.

At a broader level, we think this will serve as a blueprint for a new funding approach that allows the most innovative biopharma companies to access large-scale capital while keeping full control of pipeline development and global commercialization and retaining full strategic optionality, thus capturing more value for shareholders. Pablo used the term groundbreaking to describe this partnership, and it's indeed getting lots of attention across the industry.

Now let's turn to slide 10 to take a closer look at the details. What's really powerful about this agreement is both the scale and the flexibility. It is a true win-win for both Revolution Medicines and Royalty Pharma. The royalty structure on daraxonrasib provides an attractive risk-reward for both of us with additional funding becoming available upon clinical and regulatory progress as well as sales thresholds. Importantly, for our partner, most of this additional funding is optional and comes at a successively lower cost of capital.

On top of that, we'll receive royalties on a second pipeline therapy zoldonrasib once it is approved in an overlapping indication. Daraxonrasib consensus models show over $7 billion in worldwide sales by 2035, which translates to as much as $170 million in peak annual royalties to Royalty Pharma. The full details of this transaction are shown in the appendix of this presentation. The credit facility further scales the capital available to Revolution Medicines. It's tranche based on achievement of product approvals and to sales thresholds, so it grows as the company grows. We have the flexibility to syndicate some or all of this six-year loan with other investors.

Slide 11 gets to the core of why there is so much excitement surrounding daraxonrasib. The unmet need in pancreatic cancer is profound. According to the American Cancer Society, the five-year survival is just 13%, and it's now the third leading cause of cancer-related deaths in the US. The opportunity is substantial with around 56,000 new pancreatic cancer patients diagnosed each year, and for most chemotherapy is the only option. Assuming success in Phase 3, Revolution Medicines would have a significant first-to-market advantage.

We see a similar dynamic in non-small cell lung cancer, where chemotherapy is the only option for second-line treatment for most patients. Here, Revolution Medicines is currently enrolling a Phase 3 study in the second and third-line setting with primary completion expected by the end of 2027. As I also noted, if development in other RAS-driven tumors succeeds, we also benefit.

To summarize, we think daraxonrasib can transform care for RAS-mutant cancers, especially in metastatic pancreatic cancer where patients desperately need new options. It's a high-impact program with significant commercial potential, and we are proud to be a part of it.

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

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

Thanks, Marshall. Let's move to Slide 13. This slide shows how our efficient business model generates substantial cash flow to be reinvested. As you heard from Pablo, Royalty Receipts grew by 11% in the second quarter, reflecting the strength of our diversified portfolio. The key drivers were the strong performances of Voranigo, Trelegy, Evrysdi, and Tremfya.

In addition, we benefited from a one-time payment of approximately $50 million in milestones and other contractual receipts, which was anticipated within our prior guidance. This resulted in Portfolio Receipts, our top line, of $727 million, which was growth of 20%.

As we move down the column, operating and professional costs equated to 12.9% of Portfolio Receipts. This included approximately $35 million of one-time expense related to the internalization transaction. Excluding this item, the ratio would have been just over 8% of Portfolio Receipts, within our historical range.

Net interest was a small positive of $8 million in the quarter, reflecting the semi-annual timing of our interest payment schedule with payments primarily in the first and third quarters and the interest we received for the cash on our balance sheet.

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 Portfolio Cash Flow, which is Adjusted EBITDA less net interest paid. This amounted to $641 million in the quarter, equivalent to a margin of around 88%. This reflects a high underlying level of cash conversion and once again underscores the efficiency of our business model.

Capital deployment in the quarter was $595 million. This primarily included the $250 million upfront for Revolution Medicines, a $200 million manufacturing milestone payment related to adstiladrin, and R&D funding for litifilimab. Lastly, our weighted average share count declined by 35 million shares, largely as a result of our share buyback program.

Slide 14 provides more detail on the evolution of our top line in the second quarter. Royalty Receipts, which we consider our recurring cash inflows, grew by 11%, helped by the strength of our diversified portfolio, which I highlighted earlier. I would also note that one of the drivers this quarter was Voranigo, which was $26 million in Royalty Receipts after being launched by Servier only last August. We are excited to see the profound impact it is having for glioma patients as it quickly becomes one of our top royalties and is on track to rapidly become a blockbuster.

Portfolio Receipts, which grew by 20% in the quarter, benefited from the one-time payment that I described earlier and is slightly ahead of the range we guided to for the quarter. This takes our top-line growth for the first six months to 18% and supports our confidence in delivering another strong year of growth.

Slide 15 shows that we continue to maintain significant financial capacity to execute our strategy. In total, we have access to approximately $3.4 billion 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 second quarter, we had cash and equivalents of $632 million. In terms of our borrowing position, we have investment-grade debt outstanding of $8.2 billion. Our leverage now stands at around 3 times total debt to EBITDA, or 2.7 times on a net basis. We also have undrawn financial capacity from our $1.8 billion revolver.

Lastly, as you heard earlier, under our dynamic capital allocation framework, we continue to take advantage of the fundamental disconnect in our share price and repurchased shares in the quarter, taking our total repurchase activity to $1 billion for the first six months. We also grew our dividend and continued to deploy capital on attractive royalty deals. In total, we returned $1.26 billion to shareholders in the first six months, a record for Royalty Pharma.

On slide 16, we are raising our full-year 2025 financial guidance. We now expect Portfolio Receipts to be in the range of $3.05 billion to $3.15 billion. Let me walk you through our assumptions.

Starting with Portfolio Receipts, we are expecting growth of around 9% to 12%, up from 6% to 12% previously, based on the strong momentum of our diversified portfolio. This takes into account the recent launch of Promacta generics as well as a range of scenarios for the launch of Alyftrek and the impact of Medicare Part D redesign.

Importantly, and consistent with our standard practice, this guidance is based on our portfolio as of today and does not take into account the benefit of any future royalty acquisitions.

Turning to operating costs. Payments for operating and professional costs are now expected to be approximately 9% to 9.5% Portfolio Receipts in 2025, down from 10% in our previous guidance. Keep in mind that in the first half of this year, operating and professional costs were greater than 12% of Portfolio Receipts, driven by the one-time expenses related to the internalization and the sale of the MorphoSys Development Funding Bonds.

Collectively, these items are expected to impact full year costs by approximately $70 million or a little more than 2% of Portfolio Receipts. We expect operating and professional costs to be between 5% to 6% in the second half of the year as we begin to realize the full benefits of the internalization.

Interest paid in 2025 is now expected to be around $275 million with around $126 million to be paid in the third quarter and $8 million in the fourth quarter. This guidance includes the additional quarterly interest expense for the debt assumed as part of the internalization but does not take into account interest received on our cash balance, which was $21 million in the first half.

In summary, we have delivered a strong second quarter and first half, which puts us on track to deliver another full year of excellent financial performance in 2025 as reflected in our raised guidance.

Now before I hand it over to Pablo, I should also note that we did not receive from Vertex the full royalty to which we are entitled on Alyftrek, specifically the royalty related to deuterated ivacaftor.

As we have previously stated, we believe we are entitled to a royalty of 8% on sales of Alyftrek. However, Vertex only paid us a royalty of 4%. As a result, we commenced the dispute resolution process contemplated by the agreements relating to our royalties on Vertex's cystic fibrosis products.

That process is subject to confidentiality obligations and so we do not expect to provide any updates until the matter is resolved, which we anticipate by around the end of 2026. We continue to receive our full royalties on Trikafta, Kalydeco, Symdeko, and Orkambi.

And with that, I would like to hand the call back to Pablo.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Thanks, Terry. To conclude, I am delighted with our strong performance so far in 2025.

We have again delivered double-digit growth, and we've entered into a groundbreaking partnership and acquired a royalty to one of the most exciting oncology assets in clinical development. On top of this, we significantly increased the return of capital to our shareholders, and we're now an integrated company with all the benefits that it brings to our shareholders and our people.

On slide 18, I want to highlight an important event in partnership with MIT that took place in the second quarter and reflects our role in advancing the health care ecosystem. In June, we sponsored our fifth annual Accelerating Bio-Innovation Conference. The aim of this three-day conference is to facilitate discussions on translational science and drug development and to connect diverse parties in the biopharma ecosystem.

This year, we had a tremendous turnout of nearly 350 life sciences executives, including 127 CEOs, 79 scientists, and 4 Nobel laureates. The audience was balanced between industry, academia, and investment professionals.

As with our previous conferences, the feedback we received was hugely positive and sets Royalty Pharma up well for future dialogue with many of the leading innovators in biopharma. This is another example of our win-win approach and keeps us front of mind for those seeking a partner to fund their innovation.

On my final slide, I want to remind you of our coming Investor Day on September 11. We have an exciting agenda, which will provide you with a comprehensive deep dive into our plans to drive shareholder value creation in the large and growing market for funding biopharma innovation. We think it's a truly unique and compelling story, and we hope you can join us.

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

George Grofik - *Royalty Pharma PLC - Vice President - Head of Global Investor Relations*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Schott, JPMorgan.

Christopher Schott - *JPMorgan Chase & Co - Analyst*

I just had two here. Maybe first, coming back to the Revolution Medicines deal. I'm just interested in your capacity to do these types of deals. I know it's a smaller initial upfront but could be a sizable amount of capital with obviously very attractive returns if it all works out. So should we think about this as kind of more like one-off type of transactions? Or could we think about Royalty doing kind of a wider range of these kind of end-to-end type of structures like this?

My second question was on China innovation and how Royalty is thinking about this. It seems like we're seeing a larger and larger percent of the industry's, at least early-stage pipeline coming from China. How do you think about this from a Royalty perspective? So specifically, do these companies have the same royalty opportunities you've seen with maybe more traditional US or European biotechs? And as a company, do you have the resources to diligence and develop relationships with some of these emerging companies?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Chris, thank you for your excellent questions. And I'm going to take the first one, and I'll ask Marshall to take the second one.

So with respect to the Revolution Medicines transaction, it's incredibly exciting for us. And as we shared with investors when we closed the deal in our press release, we believe this is groundbreaking. It's a new paradigm for us, for the industry, for biotech, exciting biotech companies seeking funding because it really puts Royalty Pharma as a very viable alternative to a big pharma partnership where companies typically give up a very significant portion of the economics. It could be 50-50 shared economics with a big pharma partner. Often, big pharmas also take a much larger share of the ex-US economics because they have worldwide distribution and they -- when they're discussing transactions with biotechs, they present that as an advantage they have.

Also what happens in this big pharma partnerships is that you now have a partner that will have opinions and maybe in how -- in terms of how to develop the drug, and maybe their opinions do not coincide with the opinions of the biotech management, and it becomes complicated.

So what's so interesting about this is that we provided funding at scale up to $2 billion for this very exciting product and this great company with a fantastic management team that puts us -- creates this win-win partnership with this company.

But to more precisely, just a touch on one of your questions is, can we do more of this? And absolutely, we can. We're actually having active discussions with many other potential partners. Obviously, when something like this happens, people notice, and they realize that they could be another Revolution Medicines. And we do have the capacity to do many more. We have the capacity to analyze these deals and negotiate them. And we're very excited about this. And I don't see this as a one-off. Obviously, transactions take time and for us to agree on terms with partners, it requires a lot of things that have to fall in place. But I do expect that we will see more of this in the coming years. And that's something that Royalty Pharma is extremely well positioned to do based on our scale, cost of capital, and also knowledge.

One very last thing that I will mention is that we've invested a lot of money over the last five, six, seven years in data. And one of the things that we're doing is data that we acquire and then use it to analyze our investments, but also on a data analytics team that is expensive and it's great people that we've gathered. And we're using that for our own benefit but also sharing that with our partners. And again, something that differentiates Royalty Pharma from other capital providers.

So I'll turn it now over to Marshall to answer your second question.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Hey, Chris. Good morning. Thanks for the question on China. So no, it's a great question, and it probably won't surprise you to hear that something we've been focused on -- that we've been focused on for a while now. I think we are really excited to see the new product development and the kind of globalization of biopharma innovation.

And what's happening in China is exciting, and we are definitely focused on it helping us to grow the Royalty Pharma business. And I think it's a great example of how our open and flexible business model allows us to shift and focus on innovation wherever it happens around the world.

And so a couple of points to make. I think one is, definitely, we're excited to see this as a whole new source of both royalty creation and new royalties for us to potentially invest in, in the future. But then also, there's definitely going to be opportunities over time to work directly with companies there like you've seen us do -- like you're seeing us do here in the US and Europe. So we're definitely excited about that. And like I said, we've been focused on it for a while, and we're already actively engaged in developing relationships there and potential investments there. So I think it's a place you'll continue to see focus from us in terms of new opportunities and something that we're excited to see as a part of our business in the future.

Operator

Terence Flynn, Morgan Stanley.

Terence Flynn - *Morgan Stanley - Analyst*

Congrats on all the progress. I have two. The first is, there's been a growing focus on the bladder cancer market given a number of innovative drugs that have been launched and are launching. I know you guys have some exposure there with Adstiladrin royalties. Just wondering if you can disclose what that royalty is tracking on a dollar basis right now? And then maybe how you see the non-muscle invasive segment evolving just given some upcoming competitors that might be entering?

And then the second one is just on the operating expenses. Is the 5% to 6% range that you talked about, Terry, for second half of '25, is that the run rate we should think about for '26? And then how are you thinking about additional share repos from here?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Thanks for the question. So Terry, why don't you take this question about operating expenses, and then Marshall can talk about bladder cancer.

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

Sure. So we -- yeah, we're now starting to really see the benefits of the internalization on that sort of operating margin with 5% to 6% Portfolio Receipts going to expenses in the second half of this year. I think that we haven't given guidance yet for next year, but we do feel like this is -- it's a strong trend and heading in a direction that will reach -- when we did the transaction, we said that we could ultimately get to 4% to 5% of Portfolio Receipts. And I think we're heading there. So we feel really good about that.

And then the question on share repurchases, as we've discussed a number of times in the past, it's going to be very dynamic. I think what we're really excited about right now, and you see it with the Revolution Medicines deal is the opportunities ahead of us. And so we're really excited about the pipeline. And I think that we're going to try to strike the right balance and look at our capital allocation framework as sort of a guidepost there and look at the attractiveness of royalty deals and the attractiveness of our share price relative to intrinsic value. And we do feel really good about where the pipeline is right now. And so I think that that's something that we're very excited about.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

And then Terrance, your question -- the second part of the question on Adstiladrin. So we have not disclosed the nominal royalties for that, but I can certainly provide some thoughts on how we thought about that market and how we see it developing.

So we are excited to be a part of Adstiladrin and Ferring has done great work building this market. This is a market that hasn't seen innovation in this area for some time, and Ferring is doing a good job with the launch and building the market.

And as a reminder, our view here and what we got excited about Adstiladrin was kind of three or four things. And first one was this was first to market with a real advantage in terms of a -- what we think is a compelling combination of both efficacy and patient experience in terms of safety and convenience, which comes together to be, we think, a really exciting package. Certainly, when we made this investment, we were aware that there are other products coming to market. But this is one where we see that as a positive in the sense that as more companies are focused on this market, we see it growing with patients seeing multiple lines of therapy and certainly not a zero-sum game in any way. And so we are excited about Adstiladrin and excited to see how the non-muscle-invasive breast cancer market develops from here.

Operator

Jason Gerberry, Bank of America.

Jason Gerberry - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Maybe one more on the RevMed deal. Curious how important to the upfront deal consideration was frontline PDAC? How you view derisking of dara combo with chemo, specifically in the frontline PDAC setting? Or is that kind of more factored into the sort of the downstream optionality when you consider that? And then maybe just when we think about 2025 Portfolio Receipt guidance, can you identify what is the single biggest variable in that 3% delta?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Sure. So Marshall, why don't you take the Revolution Medicines question? And then Terry, you can take the second question.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Sure. Hey, Jason. Good morning. So on the Revolution Medicines deal, and I just want to reiterate how excited we are both about this product, what it means for patients and how innovative this deal is and like one of the earlier questions asked about, we really see this as a new approach for companies to develop and access large-scale capital for exciting drugs.

Specifically on the first-line question, so we are really excited about the first-line opportunity. And I think certainly, the patient need there is just as great. And so we are excited to see Revolution Medicines develop at there. Won't go into a lot of detail on that except to say, yes, that's something we are excited -- we are certainly excited about beyond second line.

And then finally, just as a reminder, one of the tranches of the synthetic royalty deal is based on positive Phase 3 data in pancreatic cancer. So certainly -- in first-line pancreatic cancer. So certainly, that's something that was contemplated as part of our deal.

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

And then, Jason, on your guidance question, we always try to look at a range of scenarios when we're providing our guidance. And so some of the factors that I mentioned before or certainly the Promacta generic is one, Part D redesign, FX. We really try to just kind of stress test all of the potential sales scenarios for a lot of our products when we're doing that. So that's how we came up with that range. Yeah, that's basically it.

Operator

Umer Raffat, Evercore.

Umer Raffat - *Evercore Inc - Equity Analyst*

I have several today, if that's okay. Maybe just step by step. First, Terry, you mentioned obviously the change in how Vertex is putting out the royalties now. I also see consensus tracking at about $900 million in royalty payments to Royalty Pharma for the foreseeable future, the next several years. I guess how would you recommend we think through that while you guys are in the arbitration process?

Secondly, maybe this is for Pablo and Marshall. Obviously, congrats on the Rev Med deal and very intriguing structure of the deal around pancreatic data, pancreatic approval, et cetera. But there's one thing I can't seem to figure out, which is why were no tranches pegged to the Phase 3 lung cancer readout? And who decided that? Was it RevMed that decided that? Or was it Royalty Pharma?

And then finally, on Spinraza durability, Biogen is obviously really emphasizing, and so is Ionis, the salanersen program, which is the once annual version of Spinraza. And it prompted me to sort of go back and see how you guys structured the transaction. And at least based on what was put out there, it looks like it was specifically focused on nusinersen, which is Spinraza. So would you guys have to buy into that? Just trying to think about how to think about the Spinraza franchise durability, if I may?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Umer, thanks for the question and good to hear you. Terry or maybe Marshall can take the RevMed question, including the Phase 3 lung cancer point and talk about Spinraza, and then Terry can come back to Vertex.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Sure. Umer, good morning. So on the first part of your question on the tranches and why they were tied to pancreatic cancer, I wouldn't read anything into that about our views on lung cancer. We're certainly excited about that.

It was -- the tranches and the triggers and the timing was really part of an extensive and collaborative discussion that we had with RevMed about fitting the capital and the cadence of the capital coming in to fit their needs as they're thinking about their broader development program. So that was really the trigger, and I think it's a good insight and a good question into how we develop these deals and these structures with our partners. So that's the right way to think about that.

And on Spinraza, on that one, yes, we have certainly been following the -- we have certainly been following the developments on the next generation. And just a reminder that on the Spinraza, remember that is a -- that royalty, depending on the pelacarsen outcome, will end at a certain point when we have received -- when we've essentially gotten our capital back. So there is a limit on that royalty.

And then specifically on the next gen, let us come back to you off-line on the details on that one. And we can give you some more detail on the extent to which we have exposure to the next gen.

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

And then Umer, on CF, just to sort of clarify, when we look at our consensus, we see $850 million in 2026, declining to $750 million by 2030. As far as what investors should assume during the arbitration -- during the dispute resolution process, what we know right now is that we're getting a 4% royalty. I think that, that's what we know today. I think as this plays out, I think we'll just have to wait and see. But right now, it's a 4% royalty. We believe strongly that we are entitled to an 8% royalty, but we need to let this process play out.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Terry, maybe you need to point out the guidance you gave of $850 million, going $750 million or $700 million is based on what assumption in terms of the royalty rates.

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

That's based on consensus estimates.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Based on what royalty rates?

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

Royalty Pharma consensus estimates. I don't know.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

It's a low royalty.

Terrance Coyne - *Royalty Pharma PLC - Chief Financial Officer*

Yes. I assume that the royalty rate is -- that reflects the lower royalty.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

The lower royalty, it yes. Obviously, the outcome of this dispute will determine what the actual royalty rate will be and that will change this estimate.

Operator

Mike Nedelcovych, TD Cowen.

Michael Nedelcovych - *Cowen and Company LLC - Equity Analyst*

I have three. One is actually a follow-up on the Vertex dispute. In terms of timing, is end of 2026, the worst-case scenario is it within the realm of possibility, for example, that this dispute is settled much earlier than that? Or are there structural reasons why the arbitration absolutely must extend into 2026? That's my first question.

My second question is on aficamten. Bristol's Camzyos has been performing much better of late. And I wonder how you interpret those trends? Do you view them as positive for the market opportunity as a whole and likely to accrue to aficamten benefit as well? Or do you think it might make the competitor more difficult to dislodge either way? And what ways do you think aficamten might differentiate in the marketplace?

And then my last question is actually on the ABI conference. It's very interesting. I'm curious if you might share with us one new thing that you learned at the conference about the industry that perhaps you have not heard in other venues?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Sure. So regarding the timing estimate we gave you for the resolution of the Vertex dispute, it's a conservative time based on a lot of data on disputes of how much time it takes for this to get resolved. And obviously, there are scenarios where this could get resolved much quicker. But we wanted to give you what is sort of what actually happens in this kind of situation, and that's why we guided conservatively. And then Marshall can talk on the aficamten question.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Okay. Great. Hey, Mike. Good morning. So first of all, just to confirm on Umer's last question. So Umer, the answer to your question is, yes, the next-generation Spinraza is included as part of our deal. So no concerns there on Spinraza's sustainability because it is included.

And then, Mike, on Camzyos. So yeah, we have been happy to see the uptake of Camzyos, and I think confirms our view of the market and the unmet need there and the size of that market. And so I think sets the stage for the aficamten launch nicely. So that's our view overall. And I think there's lots of parts to it. I think certainly having options in a market for physicians and for patients is always a powerful thing. I think some of the ease-of-use factors with aficamten are certainly going to be viewed positively by physicians. And then the set of data that Cytokinetics is developing around the product will certainly be helpful like you saw the beta blocker comparison study that read out positively earlier this year. So we remain really excited about aficamten and the success of Camzyos only confirms that for us.

Operator

Ash Verma, UBS.

Ashwani Verma - *UBS - Analyst*

So I wanted to ask about just broadly on the biopharma royalty news. I saw the transaction between HealthCare Royalty Partners and KKR. I'm just curious to get your thoughts on how competition scaling up impacts your ability to compete for new royalties, especially for large transactions?

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Sure, Ash. Thank you for the question. So it's not a surprise to us. We've actually known HealthCare Royalty for probably two decades and know the team well, know the people. And it's not a surprise to us that they have now been acquired by KKR. We expected that. And what I would just say is that competition has been out in the market for decades, and we know really well how to operate with competitors. And there's been other things that have happened recently. There was another fund that was raised, $1 billion. But I think a few things to just remind you of. One is that Royalty Pharma has a very, very different structure than the rest of the competitors we have. We're a fully integrated company with a very low cost of capital, a WACC of 7%-ish, around 7%, maybe a little bit higher. And a cost of debt that is extremely, extremely low. Our overall cost of debt is a little bit north of 3%. And obviously, to raise new debt will be slightly higher given the interest rates today.

But we also -- when you look at our debt, it's a weighted average duration of 13 years. So Royalty Pharma, with our current structure, gives us access to the biggest capital markets in the world, the US equity market, and also the biggest debt markets in the world where we can fund our business incredibly competitively. It's really a cost of capital equivalent to big pharma. So that puts us in a very unique position.

Scale is another really important factor. We're doing deals that are multibillion dollars sometimes as an upfront. We've invested $2 billion in Evrysdi with PTC in the past. We bought royalty on Tysabri, sorry, for $2 billion of royalty and cystic fibrosis for close to $4 billion when you look at the two combined transactions we did. And you saw the Revolution Medicines transaction we announced a few weeks ago.

And that really shows how we can work with partners in transactions that are really large-scale transactions. And I would point out that many of our competitors, the entire fund they have is the size of one of the transactions that we do. So it just tells you how they need to do transactions that are much smaller because they're not going to put their entire fund in one transaction. They will probably put 10%, 15% of the size of the fund in one transaction.

And the other things that I think make us very unique is the team that we have at Royalty Pharma, which is probably one of the biggest investment teams in life sciences that has been working in a very cohesive way with a great culture over decades. And so we feel really, really good about how Royalty Pharma is evolving and continues to evolve to stay ahead of the competition.

And again, we welcome competition. It's good for companies that are trying to do transactions and fund themselves to have multiple alternatives. And we tend to win when we like the asset because of the advantages we have, the low cost of capital, the scale, and our relationships, that's another really important thing that we build relationships with management teams over decades.

But I'll stop there. Thank you for the question.

Operator

Geoff Meacham, Citi.

Geoffrey Meacham - *Citi Infrastructure Investments LLC - Analyst*

I just have a couple. I wanted to get an updated view on kind of policy and impact. I think when you look at what ultimately could impact net pricing and then also consensus assumptions as MFN and perhaps PBM reform, and we may get that by year-end, so to what degree have you guys been proactive here to maybe assess the range of an impact?

And the second question, also another one on competition in the space. Does Royalty still see high interest in larger scale deals, i.e., like more than $1 billion? Pablo, this is where you guys are the most differentiated? And how would you rank synthetic deals as a strategic priority in this context? I think it used to be near the top, but I wanted to kind of get an update there.

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

Yes, of course. So maybe just quickly on competition. We do believe that there will continue to be very large transactions in our space, $1 billion-plus. There's obviously fewer of those larger ones than transactions in the $250 million, $500 million range, where we have many of those per year.

But what's interesting for me to see, Geoff, is that 10 years ago, 15 years ago, it was actually rare to have a transaction that was multibillion dollars. It would happen once every couple of years, every two, three years. And now it seems like every year, we have a transaction of that size, Voranigo was around that $900 million-plus. So it's large. And as I mentioned, we had Tremfya, which was over $1 billion; Trelegy, $1.3 billion; and then the transactions with PTC that added up to about, I think, $2.1 billion so far. So I think it's becoming more common that we have these large billion-dollar transactions every year.

And I think I'm confident that that's going to continue because when I see the royalties that are being created when licenses are put in place -- there are large royalties, high single-digit, low double-digit royalties that when you look at a product that can be a multibillion-dollar product, those royalties will be worth $1 billion-plus and in some cases, multiple billions.

And I think what's also interesting, again, going back to the China question and China strategy, and we are -- Royalty Pharma has been working on a China strategy now for some time, and we think that's going to start to pay off. But when you look at all of the licensing deals that are happening between Chinese companies that are generating great assets and Western companies, these royalties are large and some of them will be royalties in blockbuster drugs, multibillion-dollar drugs, and they will be worth many billions of dollars. So I think that's another new source of potential investment for us, and we're excited about that.

And then there was the question on policy and MFN that Marshall will take.

Marshall Urist - *Royalty Pharma PLC - Executive Vice President - Research & Investments*

Hey, Geoff. Thanks for the question on MFN and policy impact in general. So we've come at it in a couple of different ways. I think certainly, we're trying to stay as close to developments as we can with our advisers and consultants on the policy side in D.C. to think about various scenarios and what might happen. So I think staying informed is a certain part of it, and we've certainly been focused on that.

And then second, we have been taking an approach that we described before, which is really a scenario-based approach and thinking about a wide range of scenarios as we consider new investments. But I think the thing that we continue to stay focused on is, first, being focused on the most high-impact important medicines out there like you saw us just do with Revolution Medicines because regardless of what ultimately may happen, we think those are the medicines that are going to be most successful if they're helping patients. If they're helping patients in important ways, they're going to be commercially successful as well.

And then second, just to remind everyone, this kind of an environment, it does highlight the advantages of just our flexible model, and how we can focus our time and investments and innovation and on where the innovation is most attractive but also respond to policy changes in real time and incorporate them certainly in real time into new investments. So something we continue to watch, something we certainly are focused on and continue to watch carefully.

Operator

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

Pablo Legorreta - *Royalty Pharma PLC - Founder & Chief Executive Officer*

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

Operator

This concludes today's conference call, and thank you for participating. You may now disconnect.