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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Royalty Pharma fourth-quarter earnings conference call.

I would like now to turn the conference over to George Grofik, Senior Vice President, Head of Investor Relations & Communications. Please go ahead, sir.

George Grofik - *Royalty Pharma PLC - Head of Investor Relations & Communications*

Good morning, and good afternoon to everyone on the call. Thank you for joining us to review Royalty Pharma's fourth-quarter and full-year 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.

On slide 2, I'd 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 3. Our speakers on the call today are Pablo Legorreta, Chief Executive Officer and Chairman of the Board; Chris Hite, EVP, Vice Chairman; Marshall Urist, EVP, Head of Research and Investments; and Terry Coyne, EVP, Chief Financial Officer.

Pablo will discuss the key highlights, after which Chris will discuss our transaction pipeline. Marshall will then provide a portfolio update, and Terry will review the financials. Following concluding remarks from Pablo, we will hold a Q&A session.

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. 2025 was truly a landmark year for Royalty Pharma as we executed successfully towards our goal to be the premier capital allocator in life sciences with consistent compounding growth.

Slide 5 summarizes our strong momentum over the year. Starting with the financials, we delivered strong double-digit growth in both Portfolio Receipts, our top line, and Royalty Receipts, which are our recurring cash flows. We raised our guidance three times in the year and delivered full-year results slightly above the top end of our most recent update. This tremendous momentum was driven by the strength of our diversified portfolio.

We maintained strong returns in our business with Return on Invested Capital of 15.8% and Return on Invested Equity of 22.8% for the year. By combining strong growth and attractive returns, we believe we have a clear path to drive shareholder value creation.

Looking ahead, our 2026 full-year guidance implies 3% to 8% growth in Royalty Receipts, which reflects the strength of our base business. As usual, our guidance is based on our current portfolio and does not include the benefit of any future transactions.

In 2025, we also completed one of the most transformative steps in our company's evolution through the internalization of our external manager. This brought together our valuable intellectual capital and our unique royalty portfolio. We are already seeing benefits from improved alignment and governance, as well as from a significant reduction in costs.

Turning to capital allocation. We announced $4.7 billion of transactions on attractive therapies during the year and deployed capital of $2.6 billion. At the same time, we returned $1.7 billion of capital to shareholders. We repurchased 37 million shares for a total of $1.2 billion and paid over $500 million in dividends. And we increased our dividend by 7% in the first quarter of 2026, consistent with our mid-single-digit growth target.

We're also delighted to see multiple positive clinical and regulatory updates across our portfolio, including FDA approval of Myqorzo and positive Phase 3 results on Tremfya, TEV-'749, deucrictibant, and Trodelvy. Looking ahead, we see the potential to unlock significant additional value from our large and, we think, underappreciated development-stage pipeline where, as Marshall will highlight, we expect multiple pivotal readouts in the relatively near future.

As many of you know, slide 6 is a particularly favorite of mine, as it demonstrates our consistent double-digit growth on average since our IPO. We have delivered this impressive record year in, year out, regardless of the market backdrop. This speaks to the quality of our asset selection and our unique business model.

Slide 7 underscores an important trend. In 2025, the biopharma market reached $10 billion in announced transaction value for the first time ever. The strong growth trajectory is clear. Over the past five years, the average annual value nearly doubled versus the prior five years, and is nearly triple the level of 15 years ago. This is a market that Royalty Pharma pioneered and that we continue to lead in both share and innovation. Most importantly, we expect this growth to continue, driven by the increasing recognition of the benefits of biopharma royalties, the huge demand for capital in life sciences, and the incredible pace of scientific innovation.

On slide 8, my final slide, we show that we're executing exceptionally well against our financial targets. On our 2022 Investor Day, we introduced clear targets for top-line growth and Capital Deployment. And I am pleased to report that we delivered on both. We achieved compounded annual Portfolio Receipts growth of 13%, squarely within our target range of 11% to 14% for the first half of this decade. Importantly, we remain well on track to achieve our long-term outlook of 10% or greater top-line growth over the decade as a whole.

We have also reached our five-year Capital Deployment target of $10 billion to $12 billion, approximately one year ahead of schedule. Furthermore, I'm incredibly proud of the breadth and quality of the deals we have announced, and our transaction pipeline remains strong. I could not be more excited for the potential to scale our Capital Deployment given the strong fundamental tailwinds underpinning our business.

Now, before turning the call over to Chris, I'd like to offer a bigger-picture perspective on Royalty Pharma, particularly in an environment of significant uncertainty. Royalty Pharma is a unique compounding machine. We grow consistently year in and year out and delivered an impressive 16% growth last year. Our business delivers consistent returns to our shareholders. As you will hear later from Marshall, we have also a number of potential value-enhancing pipeline readouts in the near term. Our business is resilient, and in a time of uncertainty, we believe we offer a very compelling investment proposition.

And with that, I will hand it over to Chris.

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

Thanks, Pablo. It's my pleasure to give an update on our transaction pipeline and the growing demand for synthetic royalties, the attractive non-dilutive funding paradigm that we pioneered.

Beginning on slide 10, this provides a broad overview of the investments we made in 2025 and our transaction funnel. As you can see, we were incredibly busy and reviewed more than 480 potential royalty transactions. This resulted in 155 confidentiality agreements signed, 109 in-depth reviews, and 35 proposals submitted. Our disciplined and highly selective approach resulted in us executing eight transactions for nine therapies, or just 2% of our initial reviews, for an announced value of $4.7 billion.

Slide 11 expands on the funnel with a longer-term perspective on our investment activity. Since 2020, the year of our IPO, the team has nearly doubled the volume of initial reviews conducted and has more than doubled the number of in-depth reviews.

The growth in our funnel has come during periods of both strong and more restrictive capital markets, highlighting how the benefits of royalties are becoming more widely recognized. Furthermore, we are encouraged that the growth in our in-depth reviews, which is where our team spends more time and due diligence, has kept pace with initial reviews, indicating that an increasing number of high-quality biopharma companies are evaluating royalties as part of their capital structure.

Moving to slide 12. 2025 was our strongest year ever for synthetic royalty transactions, with four synthetic deals totaling more than $2 billion. This was over five times higher than the transaction value in 2020. In each of the four transactions, we acquired a royalty on a potentially transformative, best-in-class therapy. And 2026 has continued in a similar fashion with a synthetic deal on Teva's potential vitiligo therapy, TEV-'408, for up to $500 million.

Let's look more broadly at the synthetic royalty opportunity on slide 13. 2025 set a new record for synthetic royalty transactions, with the market value jumping by about 50% versus the prior year to $4.7 billion. The graphic on the right shows that over the past five years, biopharma funding has been dominated by equity, licensing deals, and debt. Synthetic royalties have been a small part, just 5%.

From our ongoing partnership discussions, we see synthetic royalties being routinely discussed at the Board level and C-suites as an important and growing funding modality. Why is this? Simply put, synthetic royalties solve funding problems in a way that equity and debt can't and are increasingly being recognized as an important part of a biopharma company's capital structure.

More specifically, compared with traditional debt and equity financing, they offer greater flexibility, no operational restrictions, they are non-dilutive to equity holders, and they can be tailored to the individual needs of a company. This drove our groundbreaking transaction with Revolution Medicines.

And given our leadership in this space, we believe we are optimally positioned to benefit from this important paradigm shift in biotech funding. So to close, we are confident that synthetics will be an important growth driver in the coming years.

With that, let me hand it over to Marshall.

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

Thanks, Chris. I want to discuss two important aspects of our portfolio today: first, a look back at 2025 Capital Deployment to highlight some key themes; and then, second, to look forward toward important 2026 events in our broad development stage portfolio.

Slide 15 demonstrates how well we executed against our Capital Deployment strategy in 2025. We deployed capital of close to $900 million in the fourth quarter alone, highlighting our scalable and flexible diligence and deal execution capabilities. We acquired existing royalties on approved products: Amvuttra for ATTR amyloidosis, Evrysdi for SMA, as well as a synthetic royalty on the expected approval of Denali's groundbreaking therapy for a rare condition called Hunter syndrome. We also acquired existing royalties on Nuvalent's two lung cancer therapies that are expected to be FDA approved in 2026 and 2027.

This busy quarter took our total Capital Deployment for the year to $2.6 billion which resulted, as Pablo highlighted, in the achievement of our five-year capital deployment target of $10 billion to $12 billion one year ahead of schedule. Taking a step back shows how we were able to deliver balanced Capital Deployment to our shareholders year in and year out, with 67% of our 2025 investments in approved products and 33% in development-stage therapies right in line with our historical average.

What's also remarkable is the diversity of investments underlying our $4.7 billion in announced transaction value. As a reminder, announced value is a broader measure than Capital Deployment that includes potential future payments and obligations in addition to upfront amounts. 2025 is also the first year that synthetic royalties exceeded existing royalties and committed capital, reinforcing Chris's comments about the important role of synthetic royalties in the biopharma funding ecosystem.

Slide 16 summarizes the four exciting transactions that we completed over the last three months for a combined announced value of $1.4 billion. The first thing to note is that the transactions cover four very different therapeutic areas, marketers, and development stages, showing how our investment approach consistently produces diversity in our royalties. Second, two of the four transactions are synthetic royalty deals, including Denali and most recently Teva's potentially transformative vitiligo therapy, TEV-'408. The existing royalty transactions cover Nuvalent's two development stage drugs for small cell lung cancer and the residual royalty in Roche's blockbuster Evrysdi.

Third, these largely are or are expected by consensus to be blockbuster medicines. This highlights our disciplined focus on innovative, first- or best-in-class medicines to drive our diversified, sustainable, and attractive growth profile.

Next, I'll turn to our development-stage pipeline and upcoming events. We're exceptionally well positioned for our next wave of value creation with one of the deepest and most innovative development-stage pipelines in the industry. Slide 17 shows that our portfolio already delivered a number of successful Phase 3 readouts and regulatory approvals in 2025; most recently, the FDA approval and launch of Cytokinetics' Myqorzo in obstructive hypertrophic cardiomyopathy. And these events together will lead to several new royalty-generating launches this year.

Now, unlike many biopharma business models, Royalty Pharma is not defined by any single clinical trial outcome. Slide 18 shows that there is much more to come from our development-stage pipeline, with multiple pivotal readouts expected over the next 24 months.

2026 will be an exciting year. We'll see the first Phase 3 data on Revolution Medicine's daraxonrasib in pancreatic cancer, a drug which has the potential to revolutionize this devastating disease. We'll also see the results of the first outcomes trial for our investments in the Lp(a) class of drugs with Novartis' pelacarsen. We continue to believe that the Lp(a) class could be the next major class of cardiovascular disease drugs, and we're perfectly positioned with the two lead pipeline products in pelacarsen and Amgen's olpasiran.

We'll also see data for Biogen's litifilimab in lupus late this year or early next year. And while not on this slide, we expect to see data this year for Myqorzo in non-obstructive hypertrophic cardiomyopathy, which is a potentially large new indication.

In 2027, we expect pivotal data from Sanofi's frexalimab in multiple sclerosis and from J&J's seltorexant in major depressive disorder. We'll also see the Lp(a) outcomes trial from olpasiran. Each of these potentially transformative therapies would add very significant royalties to our top line. More broadly, when we look across our entire pipeline of 20 development stage therapies, we estimate combined peak sales of over $43 billion on a non-risk-adjusted basis, which could translate to over $2.1 billion in peak annual royalties to Royalty Pharma.

So to close, there is really significant but underappreciated potential in our pipeline, and the next few years will see multiple events that could unlock substantial value. At the same time, this isn't it and our ongoing Capital Deployment will allow us to expand and repopulate our pipeline in the years to come.

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

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

Thanks, Marshall.

Let's move to slide 20. This slide shows how our efficient business model generates substantial cash flow to be reinvested. Royalty Receipts grew by 17% in the fourth quarter and 13% for the year, reflecting the strength of our diversified portfolio. When we add in milestones and other contractual receipts, Portfolio Receipts, our top line, grew 18% in the quarter and 16% for the year.

As we move down the column, operating and professional costs equated to 6.7% of Portfolio Receipts in the fourth quarter and 8.9% for the year. The quarter clearly demonstrates the benefit of cash savings from the internalization transaction, which we completed in May.

Net interest paid was de minimis in the quarter. This reflects the semi-annual timing of our interest payment schedule, with payments primarily in the first and third quarters, together with the interest we received from the cash on our balance sheet. For the year, net interest paid was $242 million.

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 $815 million for the quarter and $2.7 billion for the year. Our margin for the year of around 84%, again, demonstrates the high underlying level of cash conversion and efficiency in the business.

Capital Deployment in the quarter of $887 million took us to $2.6 billion on a full-year basis, reflecting the high level of transaction activity you heard about earlier. Lastly, our weighted average share count declined by approximately 6% in the quarter versus the prior year period and by 5% for the year, reflecting the impact of our shared buyback program.

Slide 21 provides more detail on the evolution of our top line in 2025. Royalty Receipts, which we consider our recurring cash inflows, grew by 13%. Key drivers were the strong performance of Voranigo, Trelegy, Tremfya, and the cystic fibrosis franchise, with very little contribution from new acquisitions made in the year. Portfolio Receipts grew by 16% at the high end of our guidance of 14% to 16% and well ahead of our initial guidance of around 4% to 9%.

Slide 22 updates our recently introduced portfolio return metrics for the full year. Return on Invested Capital has been remarkably stable at around 15% on average from 2019 to 2025 and was 15.8% in 2025. Return on Invested Equity, which shows the impact of conservative leverage on our equity return, has been consistently in the low 20% range and was 22.8% in 2025.

Both figures for 2025 included a benefit from the sale of the MorphoSys Development Funding Bonds. As a reminder, we sold the MorphoSys Development Funding Bonds in the first quarter for proceeds of $511 million, which resulted in an IRR of approximately 25% on our investment.

As I have said previously, we are in the returns business, and these metrics show that we are continuing to invest at attractive returns that will drive long-term value for our shareholders.

Slide 23 shows that we continue to maintain the financial flexibility to execute our strategy and return capital to shareholders. At the end of 2025, we had cash and equivalents of $619 million. In terms of borrowings, we have investment-grade debt outstanding of $9.2 billion, including the $2 billion of notes we issued in the third quarter, and the weighted average duration of our senior unsecured notes is around 13 years.

Our leverage now stands at around three times total Debt to Adjusted EBITDA, or 2.8 times on a net basis. We also have access to our $1.8 billion revolver, which is undrawn. Taken together, we have access to over $3.5 billion of financial capacity through cash on our balance sheet, the cash our business generates, and access to the debt markets.

Turning to our capital allocation framework. We deployed $2.6 billion of capital on attractive royalty deals in 2025. At the same time, we returned a record $1.7 billion to our shareholders, including share repurchases of $1.2 billion and our growing dividend.

Slide 24 provides our full-year 2026 financial guidance. We expect Portfolio Receipts to be in the range of $3.275 billion to $3.425 billion. This assumes growth in Royalty Receipts of around 3% to 8%, reflecting the strong underlying momentum of our diversified portfolio.

Our guidance takes into account the loss of exclusivity for Promacta, as well as the launch of biosimilar Tysabri in the United States, and the potential impact of IRA. It also reflects an expected decrease in milestones and other contractual receipts from $128 million in 2025 to approximately $60 million in 2026. 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.

Payments for operating and professional costs are expected to be in the range of 5.5% to 6.5% of Portfolio Receipts in 2026. This significant reduction when compared with 8.9% in 2025 is primarily the result of cost savings from the internalization of the manager.

Lastly, interest paid is expected to be around $350 million to $360 million in 2026. Based on our semi-annual payment cycle, we anticipate interest paid to be around $175 million in each of the first and third quarters, with de minimis amounts payable in Q2 and Q4. The year-over-year increase reflects interest payments on the $2 billion of notes issued in September 2025, for which the first payment will be paid in the first quarter. This guidance does not take into account interest received on our cash balance, which was $34 million in 2025.

As a final consideration, we expect to issue equity performance awards, which is our long-term incentive compensation program, due to the success of investments in 2020 and 2021. We expect equity performance awards to be approximately $85 million in 2026, with approximately half of that value reflected in the share count over the course of the year. This is very similar to the $81 million in equity performance awards that were earned in 2025.

Slide 25, my final slide, drills down deeper into our 2026 top-line guidance. We expect Royalty Receipts to benefit from multiple growth drivers, including established royalty streams on Trelegy, Tremfya, and Evrysdi, as well as the strong launch trajectory of Voranigo and the recent royalty acquisitions on Imdelltra and Amvuttra. Together, we expect these drivers to allow us to absorb the impact of LOEs on Promacta and Tysabri, while still driving Royalty Receipts growth of 3% to 8%.

Portfolio Receipts, of course, includes the more variable milestones and other contractual receipts, which are expected to be approximately $70 million lower in 2026, as I already noted.

To close, we delivered a strong fourth quarter and full year, and our guidance for 2026 puts us well on track to achieve our long-term financial objectives.

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 would like to stress how delighted I am with our performance in 2025. I started out by saying it was a landmark year on all key measures, growth, returns, strengthening our portfolio, and maintaining a market leadership. We delivered.

I want to close on slide 27 with a reminder of why we believe we are well positioned to drive strong value creation. First, we are the clear leader in the rapidly expanding biopharma royalty market with strong fundamental tailwinds, reflecting the huge demand for funding life sciences innovation. Second, we have a best-in-class platform for investing in the most transformative and innovative products marketed by premier biopharma companies, and we expect to remain the undisputed leader. And looking ahead, we are excited about the prospect of expanding our team and platform in China. So stay tuned.

Third, we have an incredible track record of delivering consistent and attractive returns, including an IRR and Return on Invested Capital in the mid-teens and Return on Invested Equity of over 20%. Lastly, we expect to deliver strong, low volatility, top- and bottom-line growth through 2030 and beyond. As a result, we are confident we are on track to generate annualized total shareholder returns of at least the mid-teens over the next five years. With the manager now internalized, our shareholders are positioned to benefit from durable value creation in 2026 and beyond.

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

George Grofik - *Royalty Pharma PLC - Head of Investor Relations & Communications*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Geoff Meacham, Citi.

Geoffrey Meacham - *Citi Infrastructure Investments LLC - Analyst*

All right. Great. Thanks for the question, guys. Just have two. The first, on dividend and buybacks, last year, you guys had a big step-up. How sustainable is that looking to 2026? Do you feel like that could have been better spent on royalty deals? I guess I'm just trying to get a sense for how the deployment mix can evolve.

And the second question is, you have thawing of the capital markets this year. Is there a creative way for Royalty to get more involved in say privates or crossovers or even IPOs? I wasn't sure how you view the returns there versus a more mature process. Thank you.

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

Sure, Geoff. Thanks for your question. Terry, why don't you take the first question, and then Chris can answer the second one on capital markets.

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

Sure, Geoff. So we -- at the time of the internalization, we laid out what we call our dynamic capital allocation framework. We're thinking about how we're going to deploy capital based on the relative attractiveness of the royalty opportunities weighed against the relative value of our stock price relative to intrinsic value.

So I think when you look at 2025, it's a pretty good example of how we think about it. We started the year -- deal activity in the beginning of the year was a little bit slower. And our stock price was, we thought, at a really attractive valuation. And so we accelerated our share repurchases in the beginning of the year, particularly in the first quarter and also into the second quarter. And then as deal activity picked up a lot in the second half of the year, we dialed back our share repurchases. And we spent a lot of capital on new investments, which we think will drive really attractive long-term returns. And I think going forward, we're going to continue to take the same approach. We're going to look at relative value. Right now, I would say we feel really, really excited about the pipeline and the opportunities for royalties. But we're going to continue to return capital to shareholders via share repurchases and dividends. But I think the priority right now is probably a little bit more biased towards the royalties.

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

And on your second question, Geoff, the thawing of the capital markets, I mean, and whether we could get more involved potentially with private companies, we're very focused on high-quality pharmaceutical products, biopharmaceutical products. And if they're housed within a private company, we look at those all the time. And our focus really is on investing in high-quality assets.

We have made some investments on private companies over the years, small equity investments associated with potential royalties. And that's something we always do. But I think we're excited really with just the growth of the opportunity set, whether the markets are strong or weak. You've seen our reviews and our opportunity set grow in any environment in the capital markets. So that's really the focus. We're really hunting for really high-quality assets wherever they are.

Geoffrey Meacham - *Citi Infrastructure Investments LLC - Analyst*

Okay. Great. Thanks, guys.

Operator

Mike Nedelcovych, TD Cowen.

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

Hi. Thanks for the questions. I have two. My first is on Alyftrek. I know the arbitration around the royalty is ongoing, so my question is not about the royalty, but rather about the products and market performance. We're now past one year into the launch of the drug. How has Vertex's conversion of CF patients over to Alyftrek been tracking relative to your assumptions? At peak, Vertex expects to convert the majority of patients. Do you agree with that outlook? And how long do you think it could take? That's my first question.

And then my second question relates to your view of the general medicine in cardiometabolic disease categories, which I know is kind of a broad topic. But there's something of a debate as to whether long-acting injectables or daily orals are best positioned to capture the largest slice of the commercial opportunity in diseases like high cholesterol, hypertension, and obesity. Do you have an opinion on this? If you were to wade more deeply into the chronic disease waters, should we expect Royalty Pharma to exhibit a strong opinion on drug delivery format, or would you try to diversify? Thank you.

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

Thanks for your question, Mike. Terry, why don't you take the first one on Alyftrek, and then Marshall can take on the second question.

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

Sure, Mike. So it's a great question. When Alyftrek first launched, I think there was, from investors, a lot of debate about how rapid the conversion would be. And I think there were many that thought that the conversion would be pretty rapid. And we had a different view at the time that we thought that it would be gradual. And it's really because Trikafta is just an amazing drug that's totally transformed that disease. And so it's sometimes hard to switch from something that's working really well.

So I think, by and large, it's been pretty consistent with what we thought. It has -- it's been gradual but steady. I think it's tough for us to speculate at this point on what percent will ultimately go to Alyftrek. But I think either way, what we laid out at our Investor Day, I think, is how we think about it long term, where we think that by 2030, even with a lot of patients switching to Alyftrek and under a downside case where we are not successful in the arbitration, that we still would recognize Portfolio Receipts or Royalty Receipts from the CF franchise of around $800 million, which is above what our initial sort of downside range was a couple of years ago. So overall, we expect CF to remain a really important contributor over the long term. And it was great to see, in 2025, it actually grew, our Royalty Receipts actually grew 7% for the year, even in the face of conversion to Alyftrek where we're currently getting a lower royalty rate.

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

Great. Mike, good morning. And to your question on general medicine products and the cardiovascular and the cardiometabolic market specifically, first of all, I'd just make a general comment, which is, when we look at that whole area, general medicine, cardiovascular disease, cardiometabolic disease, we're certainly excited about that and see a lot of opportunity there in the future. And it's a place where we continue to look for opportunities like you've seen us do in the past.

I think to your question specifically about what will sort of be a preferred delivery option, I would point to the lessons that we've seen from current markets. You look at next generation cholesterol agents, you have kind of two very different dosing profiles there and they've both found success.

So I think the incredible thing about those markets is they're so big. There's such a diversity of patient need and preference that there's opportunities for lots of different profiles. And you'll see us approach it in the same way we've done in the past, which is finding a combination of a differentiated product that's important to patients in the hands of a marketer that we believe, certainly with our -- potentially with our partnership, could maximize the value of that product.

And we continue to look for those opportunities and we'll bring the same discipline and patience that we have in the past. And when we find the right thing, we will certainly go after it vigorously.

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

Great. Thank you so much.

Operator

Terence Flynn, Morgan Stanley.

Terence Flynn - *Morgan Stanley - Analyst*

Great. Thanks for taking the questions. I had two as well. Chris, you mentioned on one of your slides that this is the first year, I think, that synthetic royalties and announced value has exceeded traditional royalties. So just as you think about the trend this year, do you think that will continue on mix? I know it's a little bit opportunistic, but just how do you think about that on the forward?

And then one for Marshall. On Lp(a), again, you guys are levered to a few of the late-stage products here. Novartis' trial, as everyone knows, was delayed to the second half of this year. So just how do you think about that in terms of likelihood of success for maybe this trial, but then any implications for the second readout, which I believe we're going to get from Amgen in '27? Thank you.

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

Yeah. Thanks for the question, Terence. And actually, it was actually Marshall on his slide that he commented on the one pie chart where synthetics were a little bit larger than the existing royalty Capital Deployment, at least around the announced value of the deals at 44% last year versus 40% for an existing royalty.

The bottom line is we're super excited about the synthetic royalty market. As we've said at our Analyst Day and on these calls, I think you're really seeing that come through. The Deloitte survey really highlighted, I think, the growth and the awareness of how we can work with companies and why synthetic royalties are a better solution in some cases and a lot of cases compared to debt or equity financing for companies. And so we see the excitement in the sector every single day. We're getting calls every single day around that opportunity. And for us, it's really always just maintaining discipline and investing in really high-quality opportunities. But the opportunity set is there, and we see the growth continuing for sure.

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

And then, Terence, your question on Lp(a), so no change in our enthusiasm there as we've been highlighting. We are really excited about the potential of this class.

The news on the timing, I think, as we've talked about in the past, when you run a first-in-class outcomes trial, a big question is, of course, going to be the event rate. And specifically in this case, this is a population where the exact event rate hasn't really been characterized, certainly in a group of patients who are pretty well treated in terms of other factors like LDL cholesterol. So in our mind, there was already -- there was always a pretty significant range on what the event rate could be and what the timing would be. So to see it kind of shifting around a little bit here is not -- it doesn't come as a particularly surprise to us and doesn't change our view. We're still eagerly awaiting the results from Novartis this year.

George Grofik - *Royalty Pharma PLC - Head of Investor Relations & Communications*

Thank you. Operator, next question, please.

Operator

Asad Haider, Goldman Sachs.

Asad Haider - *Goldman Sachs Group Inc - Analyst*

Great. Thanks for taking the questions, and congrats on all the continuing strong execution. I have two. First, for Marshall, just on the broader portfolio, appreciate all the framing on the catalyst part. But maybe just based on your own diligence and sizing of the markets and the opportunities, what assets do you think are still most underappreciated in current Wall Street models?

And then I have one for Chris. Chris, you've talked in the past about the China opportunity as an area of strategic importance and focus. Any updates there would be helpful. When could these opportunities start to become a funnel into the transaction pipeline? Thank you.

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

Great. Thanks, Asad. Good morning. So as we look at the pipeline, I think there are -- the biggest takeaway for us when we think about how the world looks at our pipeline is I think it's also just important to take a step back and think about the aggregate potential there.

And I think that was -- one of the things that we wanted to highlight was there's very significant potential for value creation right now in our pipeline, as I mentioned -- as we mentioned in prepared remarks, about $2 billion or so of potential non-risk-adjusted peak royalties, you think about that in the context of where our top line is today, that's a very significant potential and we'll continue to add there. We'll continue to add to the development-stage portfolio and then, of course, the marketed portfolio as well.

When you look across here, we do get a significant number of questions on Lp(a) and Revolution Medicines, but the other ones we -- the other products we highlighted here, Biogen's litifilimab, we'll have Phase 3 results here coming up. Sanofi frexalimab, we've highlighted the post-CD20 or non-CD20 part of the market, and the real need for new targets in MS is exciting to us. And then another product that we highlighted was J&J, a depression product that is a little -- that is off the radar, but J&J has put a lot of development resources into and we'll have data for that next year. So what we really like is the diversity of it, the depth of our development-stage pipeline, and taking a step back and thinking about the aggregate potential for value creation for our shareholders in the next years.

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

And then on the China question, we are very excited about that opportunity. I showed a slide in the Analyst Day that, I think in 2020, there were only two out-licensing deals out of China into the Western sort of multinational companies that created royalties. And it's almost like every day you wake up and you're reading about a new deal where a Western multinational is in-licensing something out of China. So that opportunity set is -- we're very excited about it. I mentioned that multiple teams have gone to China multiple times last year. And so -- and then I think we did a deal last year with BeOne which certainly I think a lot of the Chinese companies look at BeOne as a leader and a company that formerly was based in China. And they saw that transaction we did for Imdelltra which was $885 million up front. And I think that definitely opened a lot of eyes of the Chinese companies that we've spoken to around the opportunity to monetize their royalty streams.

And then I would just remind you that a lot of those transactions are somewhat of the earlier stage in nature. So we are really tracking and following those deals and how they progress within the multinationals, the Western multinationals' clinical pipelines. And we are eagerly awaiting the opportunity to put those into the funnel to your point. And then lastly, I would just say we are looking at expanding our team and our platform in China, and we hope to have an announcement on that in the very near term.

Operator

Christopher Schott, JPM.

Christopher Schott - *JPMorgan Chase & Co - Analyst*

Great. Thanks very much. You recently did a deal with Teva for its IL-15. Can you talk just a little bit more about what attracted you to that asset? And maybe as part of that, just bigger picture, I think this is a bit earlier than historically where Royalty Pharma has gone. And is that a trend we should be thinking about of Royalty looking maybe more mid-stage assets as you get larger and kind of can diversify the portfolio more?

The second one for me was on Voranigo. That launch has ramped really nicely. I think it's an asset that's a little bit less understood by the Street. Let me just elaborate a little bit more on just how you're thinking about growth for that product from here and how large of an asset that could become for Royalty Pharma over time. Thank you.

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

Sure. Chris, how are you? So Marshall will take the questions, but maybe -- yeah, go ahead, Marshall.

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

Sure. Chris, thanks for those two questions. So first of all, on Teva, so what attracted us there? I think it was a few basic things. First was vitiligo is a market that has real unmet need and there's real need in it that as an autoimmune indication where there just hasn't been enough innovation for patients.

And two, the science of it, not to get too far into the details, but the target IL-15 of the product that we invested in with Teva is really kind of fundamental to the biology and pathophysiology of vitiligo. And so that made a really strong story for us. And then third, like we said, we got a sense of some -- looking at the available data and that certainly intrigued and excited us. And that came together to get us really excited about this market that is underappreciated and has blockbuster potential.

Are we -- and you asked about the structure and are we thinking about is this any sign of moving earlier. Not at all. I think it's consistent with what you've seen us do, which is be creative in structure to where we can tranche capital over time. And that's really effective, because if you think about it, we're making a relatively small investment here to help fund the Phase 2b of $75 million. And then we will have, following that, the option to significantly scale up that investment to help fund Phase 3.

So that's a very powerful mechanism to us and a very powerful structure. You've seen us do it. That allows us to access more innovation, be a better partner, be a more flexible partner in a way that doesn't at all change the kind of risk profile of our portfolio for our shareholders. So we think it's a very cool structure and another example of how we've been innovating with royalty-based financing to expand the opportunity and expand the role.

Your second question, thanks for asking about Voranigo. We are -- we couldn't be more thrilled with how that product is launched and how Servier has done with it. That product, again, another great example of serving a profound unmet need. So it's had a very strong launch. We continue to be excited about its potential.

We've talked about how this is a drug that could have a very long duration of therapy as it kind of helps to control the growth of these low-grade gliomas and could be a -- we saw very significant commercial potential there. I think at our last update, we've shown it's very well on its way to being a blockbuster product. And if you look at the trajectory there, I think we still feel great about the trajectory that it's on and excited to see what the future holds.

Operator

Ash Verma, UBS.

Ashwani Verma - *UBS AG - Equity Analyst*

Hi. Thanks for taking my question. I had a portfolio question and one on the P&L. So maybe just on the portfolio, like Myqorzo, how are you thinking about the potential implication for this upcoming non-obstructive HCM study? There's a failure of heterogeneity in this patient population and Camzyos has also failed. So just curious if you're thinking about it as sort of like an upside driver or expect it to work.

And then on the operating and professional cost, the run rate that you provided for 2026, is this a good way to think about on a going-forward basis? Or is there any additional phasing out of the impact that's not reflected on the internalization front? Thanks.

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

Sure. Thanks for the question, Ash. Marshall will answer the first one on Myqorzo, and then Terry can address the question on P&L and operating expenses.

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

Hi, Ash. Good morning. Thanks for the question on Cytokinetics and Myqorzo. So first, just I think it highlights, as we mentioned in the prepared remarks, we're really happy to see that approval and it's a great example of how our development-stage portfolio can continue to drive and contribute to our top-line growth in Portfolio Receipts. We are super excited to see commercialization, and Cytokinetics has been a great partner for us and they've put together a great team.

Specifically to your question on non-obstructive cardiomyopathy, our base case when we made this investment was it was premised on the currently approved indication of obstructive disease. So we did not assume that this trial turned out positively when we made the investment.

That being said, I think the data that they've shown in Phase 2 is compelling. They've had the opportunity, I think, to learn from Camzyos' experience there. And so I think we are with you and the world waiting to see -- with excitement to see what this trial holds. But our basic thesis for this investment was really focused on obstructive disease.

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

And then, Ash, on your question on operating and professional costs, we're very pleased with how things are tracking. At the time of the announcement in the internalization, we said we expected to realize $100 million in savings in 2026 and we're on track to realize that.

Looking out a little bit longer term, we continue to feel like we're on track to get to that 4% to 5% range over time. So things are going really well and we are realizing a lot of the benefits financially of the internalization.

Operator

Umer Raffat, Evercore.

Michael DiFiore - *Evercore Inc - Analyst*

Hi, guys. This is Mike DiFiore in for Umer. Two questions for me. Thanks for taking my questions. The first, on J&J, they're talking about what's next in immunology with their oral IL-23 icotide. Do you feel or view that as incremental market expansion or as a cannibalization risk to Tremfya over time?

And my second question concerns Trelegy. GSK described Trelegy as a durable, respiratory franchise and noted the Trelegy legacy team supporting the Nucala COPD launch while they invest behind longer-acting options. How do you think about Trelegy's contribution to your portfolio over the next few years given what I just said? Thank you.

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

Thanks, Mike, for those two questions on two great products. Go ahead, Marshall.

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

Yeah. Hi, Mike. So your first question on the IL-23 oral at J&J and whether or not we saw that as market expanding or would it have an impact on Tremfya, we definitely see it as market expanding. I think that is a great product, but Tremfya is a great product as well, and you're seeing that in the very strong momentum in the inflammatory bowel disease launch for Tremfya.

And I think that echoes J&J's comments that they see very significant potential for both products when they look forward. So we're still very enthusiastic about Tremfya's trajectory, and we think an oral product is a new option for patients, potentially even at different stages of their disease.

Your second question was on another product we really like, and that's Trelegy. GSK has one of the strongest respiratory franchises out there. You've seen that in Trelegy's performance, which has, I think, continued to outperform people's expectations in terms of the durability of that growth.

And we are certainly excited about Trelegy's growth from here, even as GSK does what you would expect, which is continue to deepen and broaden their respiratory franchise. And we don't believe that's going to come. We don't believe Trelegy is going to pay any kind of price because of that.

Michael DiFiore - *Evercore Inc - Analyst*

Great. Thank you.

Operator

Jason Gerberry, Bank of America.

Dina Ramadane - *Bank of America - Analyst*

Hi. Good morning. This is Dina Ramadane on for Jason. Thanks for taking our question. We just had two follow-ups to prior discussion points. I guess first on the China market, could you characterize how future deal structures may differ in China from the way you've kind of done historical deals, if at all? Are you finding that the diligence process comes with any added or expected process-related hurdles that impact normal efficiency?

And then second is just on the Lp(a) lowering class readouts. How important in your view is a treatment effect size coming above or below a 15% to 20% risk reduction to a commercial peak sales opportunity? Thank you.

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

Sure. Maybe I'll take your China question. We don't foresee any change in the way we structure transactions and how we actually diligence them. You asked also about diligence. It's exactly the same process that we follow for products. Just realize that what is likely to happen in China deals is that we would be buying a royalty from a Chinese company that licensed a product to a company in the US or Europe. And they did that because the vast majority of Chinese companies do not have clinical and marketing infrastructure in the US and Europe. They need a partner to help them run the trials in the US, in Europe, and eventually to market the products. So the payer of the royalty will be a US or European company, like in the case of the deal we did with BeOne, the marketer is Amgen. And for us, the payer is Amgen, the credit risk is Amgen. So we feel very comfortable.

Now, in terms of being effective in that market, we have mentioned on this call that what we need is presence locally. And that's something that you will see very soon from us with a local team with exceptional people. And it's a market that we intend to build and really focus on because we do see very significant opportunities coming from China.

Thank you for the question.

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

And then your second question on scenarios around the effect size in the upcoming Novartis Lp(a) trial, there's no question, and it won't surprise you to hear us say that the effect size does matter. I think we should -- given that we're a few months away at this point from seeing this data, I think there will be a lot of discussion, I am sure, based on what it ultimately shows. And I think it will matter in the range that you talked about. The types of patients who benefited, were there any subgroups where particularly where there was particularly strong benefit or had a particular impact on benefit. And I think the physician community will work that out for who are the patients most likely to benefit.

So again, just I think it does highlight the incredible potential of our development-stage portfolio. We're really excited to see this. After waiting a few years at this point for this event, as you might imagine, we are eager to see it and discuss the data with everybody.

Operator

Thank you. I am showing no further questions in the queue. I would now 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, everyone.

Operator

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