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OVERVIEW:

Company Summary

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PRESENTATION

Douglas Miehm - *RBC Capital Markets Inc - Analyst*

(audio in progress) company, which is Royalty Pharma. And it's my pleasure to have with me today, Marshall Urist, who is the EVP, Executive Vice President, and Head of Research and Investments at the company.

Let me start with an interesting anecdote, because I know I have big shoes to fill with respect to Greg leaving, and he was the one who interviewed you last year, but I covered my first royalty company actually in the late 1990s before it was taken over. And it's interesting because I cover a couple of them right now, but you guys have done such an incredible job over the last decade and even more, but -- while you've been public.

QUESTIONS AND ANSWERS

Douglas Miehm - *RBC Capital Markets Inc - Analyst*

And with that, how we'd like to start this conversation is I want you to share your perspective on the outlook for royalty financing right now in the context of the current macro environment. But also, there's been a few things that have been going on in the market, the way I understand it, in the alt and private credit groups that have acquired some of these royalties and may not want them anymore, and I'm just curious if that's something you'd look at, or is the duration simply too short and not of the quality that you're typically focused on?

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

Sure. So great to be here, Doug, and thanks to you and RBC for having us. So the first part of your question was sort of on the outlook for royalty financing. And we are really excited about where things stand today. I think we see our market and our TAM as expanding in sort of several directions at this point. I'll loop in what you mentioned with the macro environment.

I think if look back, our view is that on the synthetic royalty, and just a quick definition, that's where we create a royalty to fund -- to directly fund a company where one didn't exist before, and we've done that with small companies and large companies. And I think what we've seen over the last five years is that from a secular point of view, our kind of the biopharma world's view has kind of come to put royalties as kind of a core piece of how people fund companies, right?

And we've been talking about it for a while, for a very long time. It's great to see it happening that royalties are becoming kind of a core part of the capital structure alongside equity, various forms of debt, partnerships, whatever it takes, right?

Our industry is so capital intensive that as it matures, the need for different forms of capital just has created a space, I think, where royalties have thrived, and we're super excited about that part of the market. If we look at where we are today, our team put together, if you look at total capital raised by biopharma over the last five years or so, royalties was only like 5% of that, right? So you think about the headroom that we have is super exciting, and there's just a lot of room to go.

But we're also expanding in other directions. We've talked a lot recently about how we can be a great partner to the biggest pharma companies in the world, right, by directly funding R&D. And we just announced a really exciting deal with J&J to fund one of their IBD programs. And we see that as another exciting direction that our business can grow.

And then we should also think globally. We've talked about China as another direction where things have expanded, right? We've seen just an amazing explosion of licensing deals. Every one of those licensing deals creates a royalty, right? So we've been paying attention.

And so we're, we've announced recently that, just given the scale of what's happened there, we're building a team locally in China to start to develop the kind of Asian royalty ecosystem, right? It doesn't exist before. We -- our team and certainly our founder was kind of key to building the royalty market here. And we see a really exciting opportunity to do that in Asia as well. And so we're there for the long-term to build a business there.

So you asked about macro. We don't think it's so much macro as it is kind of just core that our form of funding is kind of growing up in a way and having, has become a core part of the way we do business.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

Okay, perfect. When you think about the market share that royalties have as the whole construct, whether it be equity financing, debt, et cetera, et cetera, where do you think that number is right now? And where do you think it could do as a total amount of that funding for these types of companies?

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

Yeah. Like I mentioned previously, pinning it down exactly is difficult, but we're a single-digit number, right, sort of probably that mid-single-digits kind of range. We haven't said, but is it -- we haven't said exactly where we think it could go, but you just think about how the number of companies, the total capital need out there, the pie is still growing, right?

And so I think that share will only increase as we look forward, give an example of -- we did a very large, exciting deal with Revolution Medicines last year. That was a total of a \$2 billion commitment over time, right? So you think about -- as an example of how things are growing, right? When we think about that scale and looking to scale and be a long-term partner to companies, there's just so much headroom on the synthetic royalty side for us to grow.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

I do want to talk about China and also the co-funding with pharma, but I am curious about a couple of other things first. When you think about the synthetic royalties and risk, how should they be viewed, as an unsecured form of risk or a different type of risk?

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

Yeah. I think the way -- sort of part of your question is what kind of asset is a synthetic royalty, right? Sort of a technical question in a way. And the way we think about it is we're buying equity in a product, right? And so, that is a royalty. We own a slice of the future revenue of that product. So that product changes hands for any reason, we travel with it. So that's how we think about it.

The other part of your question, I think highlights an important aspect of synthetic royalties and another reason why I think it's grown is the flexibility to structure is basically infinite, right? We can -- to your question about where does the risk lie, we work with our partners all the time to say, let's develop a structure that works for both of us. And so the core of that conversation is always how do we kind of balance and share the upside? And how do we balance and share the downside risks as well, right?

And so that's why you see often those deals have structure where if things go really well, there's one set of kind of structures around that. And if things don't go so well, right, we can marry that with things which might mitigate our downside in underperformance scenarios.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

And that's based on the structure of the royalty at the outset?

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

Exactly. Exactly. And there's no -- when we go to our partners, our founder and CEO likes to say that we approach everything with a blank sheet of paper. And that is absolutely true, right? We come in, and it's really a conversation. It's not a one-size-fits-all by any stretch. We say, what's important to you? We have a view of the product, and we sort of bring that together. And I think something we've gotten really good at over time is how do we be a really good partner and find something that's fair, that's a win-win for both us and our partner.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

Perfect. I want to spend a second on the competitive environment because when I think of most companies, yeah, they have a defined competitive marketplace. This is really a new business. Let's call it a couple of decades old. But you are so dominant, I'd say, in this space. How do you see competition?

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

Yeah. No, it's a good question. And there's a couple of different ways to sort of give you some insight. Number one is, as we think about where do we spend our time and what do we worry about, competition is not like a defining thing that we sit around worrying about all the time, right?

Where do we spend our time? We spend our time trying to grow the pie and make our market bigger, right? That is where our time is best spent. But we exist in a competitive marketplace. There are competitors out there, and I think this is misunderstood by some of our investors sometimes. From our point of view, competition has without question been a good thing, right, because it makes markets bigger. It makes people -- it makes partners be more confident in selling. And so having other people out there is a good thing, right? There's more people talking about royalties, right? All those things. It's like when a pharma company, when in drugs, like same concept all the time, right? You have two companies investing in a market, it makes that market bigger.

So all that being said, I'll just finish by saying, look, we have built our business and our team to compete, right? So we feel like we have the lowest cost of capital in this space. We are completely focused on this one market. I think we have the best sort of diligence and execution and business development team out there. So we don't ignore the competition, but we're more focused on us making the market bigger, and ultimately, that's how we've been able to build the portfolio that we have.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

Perfect. I do want to spend some time now on the R&D co-funding because I thought that was really unique. We know that we've seen \$1 billion in Q1. 55% of the global industry is focusing on this now. But there's -- I don't know if there's -- there could be a few other companies, but certainly, yourselves, you're the only one that could really service those types of large pharma companies. Can you talk about the opportunity there? I just think it's absolutely enormous relative to how people originally thought of royalties and not the synthetic type, your traditional types.

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

Yeah. So look, there -- we do have -- there are a couple of our competitors in this space. But you're right, it's a pretty narrow set of people who can do it. And what's exciting there, it's sort of a cliché, but this is like -- it feels like an overnight success that took 15 years, because we've been talking about these deals for a long time, right, with pharma. And we had done them over the years, right? We sort of did a handful of them over the years.

I think a couple things have changed and sort of brought it together where we really feel like it's reached critical mass. I think one is sort of macro in the current drug development environment, right, which is, there is more competition, there's more pressure in any given therapeutic area to move faster and do more in parallel. And companies have been doing more M&A, right? And so all of that puts a lot of pressure on capital allocation within -- on the P&L, right? And that's the core question is these companies have so much cash flow, why do they need you, right?

And so the -- but what's actually going on is that's true. They have tons of cash flow, but they don't have infinite P&L bandwidth, right? And so that's where we are a great partner to pharma is we can help to kind of expand that R&D bandwidth and allow them to invest in more things in parallel.

And we're able to do that because, look, we have scale to kind of act like a partner, but we're more of like a financial partner in that way. We have a cost of capital that is competitive with the biggest pharma companies in the world. And so this is a really exciting opportunity.

So we spent some time talking about this on our last quarterly call. And that this is another aspect of our market, which we're really optimistic about, and you've seen some big transactions in the past year by us and others. And I think this is another -- we talked about how our market is growing, a new TAM. This is certainly an example of that.

Douglas Mieh - RBC Capital Markets Inc - Analyst

Okay, excellent. I thought I'd switch now to more on the R&D side. And we can talk about a few products and things like that. And you have dara (daraxonasib) (added by company after the call), you have Myqorzo, you have Avlayah that just got approved recently. When you think of those products, can you comment on what peak royalties could be from that group of products there, let's say, simply based on what consensus numbers are, something like that?

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

And it's a great question, and I think it maybe to help frame it a little bit or why it's important is we -- is that our top line this year is going to be over \$3 billion, right? So we are the biggest player in the space, but we're certainly not massive from a revenue point of view at this point in time. And so what's so exciting about some of these that have happened is it sort of gives everyone a sense of scale of how we can continue to really grow the business from some of these individual products even.

So, talked about our deal with Revolution Medicines. So they obviously had some -- you couldn't miss it in our space, some very exciting data recently that we're going to see here in a couple of weeks. So we did a \$2 billion deal with them, \$1.25 billion of that was a synthetic royalty. Now of that, sorry for all the numbers to everyone here, but of that, \$500 million of it was the company had to take, and we've now made that investment. It was \$250 million at the time we closed the deal and another \$250 million based on the positive outcome from this trial.

So right now on that piece of it alone, we have a royalty that starts at 4.55% and then tiers down, and then our royalty is zero over \$8 billion. Based on consensus sales, that piece alone will be \$180 million of royalties to Royalty Pharma once you get to \$8 billion. And I think given where that product is and the momentum that it has, we certainly think it's going to get their consensus as well north of that, right?

So that's going to be a really nice contributor. Now, if Revolution Medicine draws more of that, and that will become available to them.

Douglas Miehm - *RBC Capital Markets Inc - Analyst*

Do you think they will draw?

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

Look, I think we'll see. I think it was designed -- it's important to keep that in mind because I think we talked about structuring flexibility, right? It was designed to give them flexibility, right? And again, that concept of fairness, right, of sort of a win-win. Our minimum investment there was \$500 million. I think we're thrilled with that investment. That's great. And the remaining \$750 million is available to them. I think it was an important transaction for them because it gives them kind of a long-term runway of potential access to that and the nice thing is, look, they can make that capital allocation decision at the time and decide the cost of capital of that versus equity versus their other options. So we'll see. I think the structure, though, is -- the structure of that is kind of functioning completely as intended. If they were to draw the whole thing, that would be \$340 million of royalties to us. But look, based on what we have, I think that I think really nice to add a really important, meaningful product like that that's also really meaningful to our top line as well.

You asked about Myqorzo and Cytokinetics, another company that we funded in Phase 3. And we've been really thrilled to see what they've done, both in terms of the current approval. And then very recently, we got some good news on a label expansion trial into non-obstructive hypertrophic cardiomyopathy. So that one, consensus sales for that, I think, are a little over \$5 billion. That would give us a royalty of, call it, \$230 million or so as well. So again, like another sort of really exciting partnership in a way that we're using these, using synthetic royalties to really continue to refresh and build our portfolio.

Now, Denali was a smaller deal for us. But look, such exciting technology, right, with being able to put -- get drugs into the central nervous system. And what we really liked there was, look, you have a product that really addresses the unmet need in a horrible orphan disease. Now, that's smaller for us, probably \$50 million-ish of royalties, but it was a \$200 million investment, right, so you have to think about all of these in relation to how much we invested. And it does give you some insight through all of these into how we select products, right, which is, we really want drugs that we feel like are important in their respective diseases, right? Daraxonrasib goes without saying, right? Denali and like novel target, novel chemistry gets to one of the drivers of the disease. Say the same thing about Denali, right? You can finally get the drug where that causes the major symptom complex of that disease. Cytokinetics is the same. So three great examples. Thanks for asking about three good ones. Three great examples that shows how we build the portfolio.

Douglas Miehm - *RBC Capital Markets Inc - Analyst*

Another deal you did recently, which was a little unusual, was the Zymeworks deal. Can you tell me why that was attractive?

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

Yes. It's completely -- the way I think about it is it was a completely normal deal, like down the middle for us. And a slightly different structure, right, that sort of helped our partner. So that -- so just so everyone knows, we bought a slice of Zymeworks royalty on Jazz's Zihera, which the same theme, right? Gastric cancer, horrible disease. This is a product that has, when added on to the current standard of care, continues to push out survival and add value to patients there. And so, it's a pretty exciting drug from that point of view, and the data is great. And we bought a slice of a kind of preexisting royalty from Zymeworks.

And so, sort of normal course for us. It was structured in a slightly different way, again, that helped our partner out for a whole host of reasons. But the theme, I think here would be -- look, despite doing this for decades, right, we will -- we want to find structures that work for our partners, and we are set up to be like total flexibility that way. And so, that's a good example of how we needed to do a slightly different flavor, structured as a royalty backed note. But again, we can -- we're sort of, that's what we do and what we've shown we can do to work with our partners.

Douglas Miehm - RBC Capital Markets Inc - Analyst

Okay. Another exciting area I see anyway is the lipoprotein(a) class. You've got interest in two products. Can you give me your thoughts there and what the opportunity might be? How successful, not successful, the odds of seeing some good results out of these trials later this year?

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

Yeah. So we have made investments in the number one and number two Lp(a) products out there. The Novartis product, which I think we're going to see data here in the second half of this year, and then we also own a royalty in Amgen's product, which is 1.5 years behind.

One of the things we're obviously out to do strategically is identify targets and drugs that have the potential to be the next big thing in a large market. I think cardiovascular disease, particularly cholesterol management is an area where, yes, there's been some innovation in PCSK9, but we've been like banging on LDL for a long time. Lp(a) is kind of a whole new concept. It's a form of cholesterol, but it's a genetically driven form of cholesterol. So you have a population of patients who have a really well-established risk factor. And I think the kind of question at this point is lowering this form of cholesterol going to lead to an outcomes benefit.

Obviously, we think it will. There is lots of questions about effect size and what is the right population of patients to treat in terms of baseline levels of Lp(a). But I think you take a step back, right, this is a target that affects millions of people around the world. It's in the hands of two of the kind of premier cardiovascular marketers out there. And it's an example of how we can have things in our portfolio that admittedly are maybe a little bit -- have a little bit higher clinical risk, but give us the potential opportunity to have meaningful interest in a multi-blockbuster class. And so this is one example of that.

We will certainly continue to add things like this to our portfolio over time, but in the context of the scale of Royalty Pharma, it's great to have two exciting potential opportunities like this.

Douglas Miehm - RBC Capital Markets Inc - Analyst

Okay. So a couple of questions to wrap up on the scale side of things. You've indicated you've got \$30 billion projected capital capacity ahead of you, and you're thinking about \$2 billion to \$2.5 billion of investment annually. Could you be meaningfully above that if the right deals came along?

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

Yeah, it's a good question. The answer to that is yes. We've talked about doing \$2 billion to \$2.5 billion a year of new -- to average that in terms of new investments. But the way to think about that is we just wanted to give the market and people something to anchor around because it's an important -- obviously, new investments is kind of -- one of the core parts of our business. But it's not like we wake up on January 1 and say, okay, we have to find a path to \$2 billion to \$2.5 billion a year, right?

We're looking to make the best investments we can every year in great products. And so could we be meaningfully above that? Absolutely, right? It's not like we stop every year because we get to \$2 billion to \$2.5 billion, right? It is really about finding great products. And if we find those great products that have attractive returns for our shareholders, we're going to make those investments.

Douglas Miehm - RBC Capital Markets Inc - Analyst

What I want to wrap up with is sort of how market sees this company from a valuation standpoint. Right now, I'd say that you internalized the external manager. I think a lot of people like that, attracted new investors. But this company, the way it's structured, trades at a discount

to almost everything out there. And yet it has some of the best, I'd say, properties, let's call it that, using a real estate term. I'm just curious if people could start to wake up to the fact that this is a very well-diversified company that has access to a number of these attractive products. When are people going to start to even wake up more? I know it's doubled, but come on --

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

Yeah. No, good. Yes. So appreciate the question, and it's an important one. And I think that the key message is that we really see ourselves as being one of the premier capital allocators in life sciences that is the ability -- and we have the true ability to compound growth, right, because we're constantly reinvesting. And so I think we -- from our point of view, we are an N of one. There's no one else like out there. And so I think certainly people are starting to understand our story, but we are just at the beginning. And so we are really excited and really excited about the future. And please, everyone, watch us execute and hope that we're going to -- that we'll create a lot of value for shareholders along the way.

Douglas Mieh - *RBC Capital Markets Inc - Analyst*

Well, Marshall, thank you for coming back again this year. It was a pleasure.

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

Yeah. Doug, thank you. Great questions. Thank you.

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