DRI Capital Inc.

DRI Healthcare Trust Debt and Royalty Transaction Call

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CORPORATE PARTICIPANTS

Behzad Khosrowshahi
DRI Healthcare Trust — Chief Executive Officer

Stewart Busbridge
DRI Healthcare Trust — Chief Operating Officer

CONFERENCE CALL PARTICIPANTS

Greg Fraser
Truist Securities — Analyst

Adam Buckham
Scotiabank — Analyst

Doug Miehm
RBC — Analyst

PRESENTATION

Operator

Good afternoon everyone. Welcome to DRI Healthcare Trust's conference call to discuss the Trust's transaction announced earlier today.

Listeners are reminded certain statements made in this earnings call presentation include responses to questions, may contain forward-looking statements within the meaning of the Safe Harbour provisions of Canadian provincial securities laws. Forward-looking statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements.

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I'd like to remind everyone that this conference call is being recorded today, Wednesday, August 25, 2021.

I would now like to introduce Mr. Behzad Khosrowshahi, Chief Executive Officer of DRI Healthcare Trust. Please go-ahead Mr. Khosrowshahi.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much, Operator. Hello, everybody, and thank you very much for taking the time to join us.

Earlier today, we were very pleased to announce our first transaction since our IPO, a debt and royalty deal with CTI BioPharma that will provide up to $135 million to fund the commercialization and launch of the rare disease drug Pacritinib in the United States. We will go over the terms of the transactions and discuss Pacritinib in greater detail as we go through this presentation, but first I wanted to highlight how this transaction is a fit for us, and our target parameters that we have discussed with you in the past.

Once approved, Pacritinib is going to be treating a large sort of—is a treatment for a very large unmet medical need in an arena where no existing therapy really exists today. The drug has very strong and long-lasting intellectual property protection. The addition of Pacritinib to our portfolio extends the weighted average duration of our royalty portfolio to over nine years, and certainly the transaction falls within our target deal size of between $25 million and $150 million. Moreover, this transaction demonstrates the opportunity for growth represented by synthetic royalty streams to help fund important pharmaceutical innovation.

I'm going to turn it over to Stewart for the next few slides, and then I'll pick it back up again in a few slides time.

Stewart Busbridge — Chief Operating Officer, DRI Healthcare Trust

Thank you, Behzad. While this transaction provides the Trust with an attractive growth opportunity, it also highlights our flexibility in structuring win-win deals based on the funding requirements and unique circumstances of our counterparties, in this case, CTI BioPharma. As per our agreement with CTI, we have deployed US$50 million via secured loan with an overall deal size of between $110 million and $135 million subject to FDA approval of Pacritinib and the achievement of certain sales thresholds by Q3 2023.

Once FDA approved, Pacritinib would become the first and only drug product approved for the treatment of myelofibrosis with severe thrombocytopenia. Importantly, the trust will begin earning cash interest on the loan immediately, and we would expect to receive the first royalty payment in the first quarter of 2022, assuming FDA approval this November.

Looking a little closer at the terms of the transaction, as of closing we advanced CTI $50 million by way of a senior secured loan. The loan will bear interest at a rate of LIBOR plus 825 basis points subject to a minimum rate of 10 percent annually and matures in five years. The loan is secured by a first priority security interest in substantially all of CTI BioPharma's assets, including intellectual property. The second component of the transaction is our purchase of a royalty on Pacritinib sales in the United States, for which DRI will pay CTI $60 million upon FDA approval of Pacritinib with the expected decision date being November 30 of this year.

The royalty that will be acquired will have a tiered structure entitling us to 9.6 percent on the first $125 million of Pacritinib net sales in the United States per year, stepping down to 4.5 percent on the next $50 million of U.S. net sales, 0.5 percent of U.S. net sales between $175 million and $400 million and a cap at $400 million of U.S. net sales. The agreement also calls for milestone payments of up to US$25 million, payable to CTI upon Pacritinib sales exceeding certain thresholds on an annualized basis by the third quarter of 2023.

I will now turn it back over to Behzad.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thanks very much, Stewart. Over the next couple slides, I'll talk a little bit about myelofibrosis as well as the drug Pacritinib and give you some of the details there.

While we look forward to the expected upcoming FDA approval and potential commercial launch of Pacritinib by the end of this year, this is going to be a very sort of important development for patients with mild fibrosis, who also suffer from thrombocytopenia, who are in urgent need of new therapies. Myelofibrosis is a type of bone marrow cancer that disrupts the body's normal production of blood cells. It causes extensive scarring in a person's bone marrow and can ultimately lead to thrombocytopenia, anemia, weakness, fatigue, and enlarged spleens and livers.

Thrombocytopenia is a condition in which the patient has a low blood platelet count, and it's an adverse prognostic variable that increases in prevalence with the progression of the disease. Myelofibrosis patients with thrombocytopenia currently have few if any therapeutic options available to

them. It is estimated that about a third of patients with myelofibrosis have severe thrombocytopenia, which is characterized by blood platelet counts of less than 50,000 per microliter. Patients with severe thrombocytopenia typically have more advanced disease, resulting in a higher risk of bleeding, increased risk of leukemic transformation and reduced survival rates shown to be just under 15 months.

Although stem cell transplants have been performed in a small number of patients, there are currently no indicated therapies for myelofibrosis patients with severe thrombocytopenia. As I said earlier, Pacritinib is expected to become the first drug product to be approved for treatment of myelofibrosis with severe thrombocytopenia, addressing an unmet medical need.

Developed by CTI BioPharma, Pacritinib is an investigational oral kinase inhibitor with a specificity for JAK2, IRAK1, and CSF1R. The JAK family of enzymes is a central component in signal transduction pathways, which are critical to normal blood cell growth and development, as well as inflammatory cytokine expression and immune responses. Mutations in these kinases have been shown to be directly related to the development of a variety of blood-related cancers, including myeloproliferative neoplasms, leukemia and lymphoma.

Importantly, Pacritinib is the only therapy that has a demonstrated clinical evidence for the reduction of spleen volume and symptom improvement for patients with severe thrombocytopenia. A randomized phase three confirmatory study is currently ongoing in multiple filed prognosis patients with platelet counts of less than 50,000 with a top line readout expected in 2022.

Back to you, Stewart.

Stewart Busbridge — Chief Operating Officer, DRI Healthcare Trust

In summary, this transaction aligns with our stated investment criteria and our growth strategy while demonstrating our commitment and ability to build DRI's asset base. I'd like to take this opportunity to reiterate our outlook. This transaction advances our goal to make between $650 million and $750 million in royalty acquisitions in our first five years as a public company and contributes to our objective of generating sustainable growth in cash royalty receipts.

Our balance sheet continues to be strong, and we're exploring credit alternatives to ensure that we are well resourced to capitalize on the robust pipeline of acquisition opportunities that we were continually advancing and growing.

With that, we would like to open the call to questions.

Q & A

Operator

Thank you.

Your first question comes from Greg Fraser with Truist Securities. Please go ahead.

Greg Fraser – Analyst, Truist Securities

Good afternoon, guys, and congrats on the deal. To start, I was wondering if you could comment on your outlook for Pacritinib sales and how your outlook compares with the consensus view?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

I think our outlook is pretty sort of consistent, maybe a little bit more conservative than the analyst consensus view for this particular product.

Greg Fraser – Analyst, Truist Securities

Got it. Will the royalties be just on U.S. sales for the myelofibrosis indication? Are you entitled to royalties on potential future indications?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

The royalties will be on all U.S. sales for any indication. I know that the Company has plans to study this and graft versus host disease, so to the extent that that pans out, we would be able to collect royalties on it. But it's geographically in the U.S., but any indication for which drug gets approved.

Greg Fraser – Analyst, Truist Securities

Got it. Can you expand on the IP protection for the asset and how you're thinking about the duration of the royalty stream?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

The compound, or the asset is protected by pretty strong intellectual property. We believe that the intellectual property protection will run through sort of 2032 or 2033 kind of timeframe, so we're pretty happy with the status of the IP.

Greg Fraser – Analyst, Truist Securities

Got it. That's helpful, and then my last question is should investors expect sort of a positive deal activity given the size of this transaction? Or would you not suggest that? Thank you.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

No, I think we're in an exciting time in our industry where there's a lot of interesting deals to look at similar to the one we we just did, and we have a reasonable pipeline ahead of us, so we're going to keep working hard and sprinting as fast as we can, being careful about it. You shouldn't expect a pause from us, but we'll sort of continue to plow ahead.

Greg Fraser – Analyst, Truist Securities

Great. Thanks very much.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you.

Operator

Thank you. Your next question comes from Adam Buckham with Scotiabank. Please go ahead.

Adam Buckham — Analyst, Scotiabank

Hi. Good afternoon, guys, and thanks for taking my question, and congrats on the deal. The majority of what I wanted to ask has already been touched on, but maybe you could just talk about the process in winning this transaction, were you bidding against anyone? Maybe talk to why the credit facility was attached, like I get it from a launch perspective for CTI, but was that a key part in winning the deal?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Absolutely, Adam. I think this was a process, which was—I don't think it was a full-blown sort of bank round process with hard dates associated with it and stuff like that. I think it was more of a, let's call it informal bank run process. The bank that ran it was Cowen, which is based in Boston, as I'm sure you all know, and I believe that there was at least a couple other people who looked at the deal, and bid on it in various ways. Stewart, do you want to take the second part of Adam's question?

Stewart Busbridge — Chief Operating Officer, DRI Healthcare Trust

Sure. Can you ask the question again?

Adam Buckham — Analyst, Scotiabank

Yes. I guess I was just wondering how much the credit facility that was attached to this helped in winning (inaudible) people?

Stewart Busbridge — Chief Operating Officer, DRI Healthcare Trust

Yes, look, I think it was a combination of CTI looking to be funded to launch the transaction, and our desire to mitigate that pre-approval risk, so it was a bit of a combination of providing immediate funds in a structure that made sense.

Adam Buckham — Analyst, Scotiabank

Okay. Great. Thanks. That's it for me.

Operator

Thank you. Your next question comes from Doug Miehm with RBC. Please go ahead.

Doug Miehm — Analyst, RBC

Yes. Thank you. I was just wondering if you could expand on how this is going to be launched. One of the things that we noted is that Company indicated they had about $70 million in cash, and they'd be through that by the end of Q4. You're going to be giving them $50 million in debt, and then hopefully another $60 million for $110 million, but they are going to be launching this product. Can you talk about the runway you expect that that's going to provide and maybe a few more details on the launch itself? How that's going to be accomplished?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Doug, yes, absolutely, I can do my best to answer these questions for you. I think once the Company receives our $110 million in capital, they will have sufficient sort of cash flow runway to be able to launch, or continue to fund the launch of the product, through till sort of 2024 kind of

timeframe. I think they'll be well positioned from a cash perspective to be able to launch the product and get it off the ground.

I think, from a launch just sort of execution perspective, to sort of look at the second part of your question, our team has been impressed with the Company's planning that it has done for the launch. We've certainly been impressed with the community physicians, as well as the key opinion leaders knowledge of this product, as well impressed with their thirst for the product so to speak, or their eagerness that they are holding for those sort of introduction of the product into the market.

The Company has done a lot of good work to sort of lay the groundwork for the launch, so that when the product is approved and on the market, there should be sort of a big pull in demand for that particular product.

Doug Miehm — Analyst, RBC

Okay, okay that works. I gather this has had a particularly challenged background, and perhaps what you could walk us through is the odds of success here in terms of getting this approved coming in in November. As part of your due diligence process, did you look into the correspondence between FDA and the Company, and anything else that you can provide in terms of providing a comfort level with the launch timing and those sorts of dynamics?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Yes. Absolutely. That's a great question, Doug. I think the nice thing that when you're doing these synthetic deals, you tend to get a lot more visibility into sort of things like marketing plans and

regulatory outcomes and things like that, and the Company was very transparent with us on their dialogue with the FDA, and we did review a lot of sort of all of the communication that they've had with the FDA in the submission of Pacritinib for approval, along with a ton of other data and information. I think that basically, the team knew as much about the product by the time they were done with the diligence, as the Company did, and so we had the same sort of visibility as they did.

Obviously, FDA communications are pretty confidential as you know, but I think what I can tell you is that we didn't see any issues with respect to the approval of the product by the PDUFA date, which obviously made us comfortable.

Doug Miehm — Analyst, RBC

Okay, and then just to wrap up, deal closure on the debt just in terms of timing. By the sounds of it, there are no delays with respect to the payments of the royalties, a quarter or two, but can you confirm that? I'll end it there.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Stewart, do you want to take this one or should I?

Stewart Busbridge — Chief Operating Officer, DRI Healthcare Trust

Yes, that closed concurrently with closing this transaction, so that is complete. In terms of delays, we'll start—assuming sales start in Q4, we would expect to start receiving royalties in Q1 in relation to those sales.

Doug Miehm — Analyst, RBC

Perfect. Thank you.

Operator

Thank you. There are no further questions at this time. You may proceed.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much, everybody, for taking the time. We really appreciate it. We're certainly excited to announce this deal and look forward to continuing to work on other deals and announce those hopefully in the near future. Thank you again.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.