DRI Capital Inc.

DRI Healthcare Trust 2022 First Quarter Earnings

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PRESENTATION

Operator

Good morning, everyone, and welcome to DRI Healthcare Trust 2022 First Quarter Earnings Call. Listeners are reminded that certain statements made in this earnings call presentation, including 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. For additional information about factors that may cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, please consult the MD&A for this quarter, the risk factors section of Annual Information Form, and DRI Healthcare Trust's other filings with the Canadian securities regulators. DRI Healthcare Trust does not undertake to update any forward-looking statements. Such statements speak only as of the date made.

The presentation today also references certain non-IFRS measures and industry metrics such as total cash receipts, total cash royalty receipts, adjusted EBITDA, adjusted EBITDA margins, and adjusted cash earnings per unit. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and therefore unlikely to be comparable to similar measures presented by other issuers. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of DRI Healthcare Trust's financial performance

from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of financial information reported under IFRS.

Please note that all dollar amounts discussed today are in US currency unless otherwise specified.

I'd like to remind everyone that this conference call is being recorded today, Wednesday, May 11, 2022.

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

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Thank you very much, operator, and good morning, everybody, and thank you very much for taking the time to join us today. With me today are Chris Anastasopoulos, our Chief Financial Officer, and Stewart Busbridge, our Chief Operating Officer. We're excited to be sharing both our first quarter results and to be updating you on our key priorities for 2022.

Our strategy continues to be to execute on acquisitions that will generate growth for our investors to enhance our capital structure and to generate strong unitholder returns in the process. In February, the FDA granted approval for Vonjo, which goes by the generic name Pacritinib, for the treatment of adults with myelofibrosis with severe thrombocytopenia, a patient population for whom therapies did not previously exist. Importantly, soon after the end of the quarter Vonjo was added to the NCCN guidelines for the treatment of myeloproliferative neoplasms, which is expected to be a key driver of product uptake going forward.

Investors will recall that we secured the royalty on Vonjo through an agreement with CTI BioPharma in August 2021 that combined $50 million of secured debt with the purchase of a $60 million tiered royalty that was completed when the FDA approved Vonjo. With the funding of the royalty transaction, DRI is now due to receive a royalty of 9.6% on the first $125 million of US sales, 4.5% on net sales between $125 million and $175 million, and 0.5% of the net sales above that and up to $400 million. We expect to receive our first royalty payment in connection with Vonjo in the second quarter of this year. The Vonjo transaction is an important addition to our royalty portfolio and is expected to generate growing long-term cash flows from a product that meets an unmet medical need. As well, it demonstrates our ability to build creative and flexible transactions that benefit all parties involved.

On April 20th, subsequent to the end of the quarter, we expanded our credit facility by $150 million to $350 million in total. We see many opportunities in the market for attractive royalties and this additional dry powder provides us with the enhanced ability to act on them as they come up. To date, we have drawn $71 million on the facility. The expanded credit facility, in combination with our free cash flow, leaves us well positioned to address the opportunities we are evaluating.

Finally, we continue to focus on delivering unitholder returns and declared a distribution of $0.075 per unit. Not considering any special distributions, this represents an annualized distribution of $0.30 and a current yield of over 5%. In addition, during the quarter we returned $2.5 million to our unitholders through our normal course issuer bid. As we announced in March, we received approval from the TSX to increase the total number of units that we can purchase under the NCIB to 2.5 million through October of this year. Since the NCIB commenced in October 2021, the Trust has acquired an aggregate of over 1.1 million Trust units.

Our portfolio continues to perform well generating $22.6 million in royalty and interest income, total cash receipts of $21 million, and $17.8 million in Adjusted EBITDA. In the quarter we generated adjusted cash earnings per unit of $0.49.

I will now turn it over to Stewart to discuss our recent asset performance.

Stewart Busbridge — Chief Operating Officer, DRI Capital Inc.

Thank you, Behzad.

On this slide you can see the breakdown of cash royalty receipts by asset for Q1 2022 compared to Q1 2021 and Q4 2021. On a pro forma basis, cash royalty receipts from our core portfolio increased by 1% over the first quarter of last year and declined by 5% from the fourth quarter of 2021 when adjusted to exclude Zytiga, as it is collected semi-annually. The year-over-year increase was primarily driven by stronger market demand for Xolair, increased sales of Rydapt, and the addition of royalties on the sales of Oracea. Offsetting this was a decrease in royalty entitlements from Eylea I as the stream reached the anticipated contractual step down in the first quarter of 2022 and a decrease in sales of Spinraza as a result of the impact of competitive products over the year. Relative to Q4, however, Spinraza declines are slowing as the competitive environment appears to be stabilizing.

As expected, royalty receipts from mature products continued to decline as a result of the expiry of royalty entitlements from the Rilpivirine Portfolio in Q2 of last year and the continued expirations of royalty entitlements in certain geographies from the Autoimmune Portfolio. Our Other Product segment

decreased as a result of the expirations of certain royalty streams partially offset by contributions of royalties acquired in the Oracea transaction.

Our portfolio remains diversified across a variety of metrics, including individual products, marketers, and therapeutic areas.

I will now turn the call over to Chris to discuss our financial status. Chris?

Chris Anastasopoulos — Chief Financial Officer, DRI Capital Inc.

Thank you, Stewart.

We continue to generate strong cash flow from our assets. In the first three months of 2022 our total cash receipts were $21 million, which included total cash royalty receipts of $19.7 million and interest receipts of $1.3 million on the CTI loan. Applying operating expenses and management fees totalling $3.2 million over the same period results in adjusted EBITDA of $17.8 million and an adjusted EBITDA margin of 85%. In the quarter we generated $0.49 in adjusted cash earnings per unit.

As at March 31st we had cash and cash equivalents of $30 million along with $32 million of royalties receivable to be collected in upcoming quarters. On March 31st the net book value of our royalty assets was $341 million and we held a CTI loan receivable of $50 million. As Behzad mentioned, after quarter end, on April 20th, we expanded our credit facility to $350 million through the addition of a delayed draw term loan of $150 million. The credit facility has a maturity date of October 22, 2024 and as at March 31st we had drawn $71 million on the facility. Combining our cash on hand, the cash we generate each quarter,

and the funds available from our credit facility, we have significant resources to deploy in growing our portfolio.

I'll now turn the call back over to Behzad.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Thank you, Chris.

I'll now talk to you about the current market environment and our position to successfully execute on our growth plans.

The life sciences value chain, from inventors to universities to biotechs and big pharmas, is in need of significant financial resources. Across the board, these players are in need of capital to continue the rapid pace of innovation that has been occurring in the industry. Right now in particular, biotech companies are looking for significant capital to fund their operations and their pipelines. Monetizing royalties provides them with a cheaper, non-dilutive alternative to issuing equity in the current capital market environment.

We are prosecuting a very robust pipeline of transaction opportunities and we are currently active on ten transactions in the late stages of execution with potential deployment of approximately $1.5 million. All of these transactions meet or exceed all of our quantitative and qualitative investment criteria. This activity puts us in an excellent position to continue executing on our strategy to grow our portfolio in the near term. Finally, with significant capacity on our recently increased credit facility coupled with the

strong cash receipts that we have seen, we have ample resources to deploy, giving us confidence that we can execute on many of these transactions.

Today we are seeing one of the most active markets for royalty opportunities in DRI's history. With the significant number of opportunities that we are seeing, we remain committed to being disciplined in our evaluation and prudent in our capital deployment decisions.

Turning now to our priorities for the remainder of the year, we remain focused on growing our asset base, accretively adding high-quality assets to the portfolio. We are poised for growth with a growing pipeline. Our cash on hand, available credit, and rigours due diligence process keep us well positioned to capitalize on the right opportunities in the most attractive therapeutic areas. With our transactions to date, we have deployed $161 million thus far, putting us on track for our target of making between $650 million and $750 million in royalty acquisitions over our first five years as a public issuer. Finally, we are in a good position to continue to return significant cash to unitholders.

With this, we will now take your questions. Thank you.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you

wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

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

Greg Fraser — Analyst, Truist Securities

Good morning, folks. Thanks for taking the questions. On the deal pipeline, can you comment on how the pipeline changed since the last update? Did any potential deals advance to maturity? Did any fall out and if any fell out, can you comment on the reasons why? And how would you characterize the likelihood of finalizing a transaction over the next two or three months?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Thank you very much for those questions. I appreciate it. We'll do our best to answer as many of them as possible, but some of them, obviously, are part of our secret sauce and so we'd like to keep that secret for competitive reasons. And please feel free to remind me if I missed any of the questions that you asked as I go through here.

Since the last update that we provided the market, I don't think any more than one or two deals fell out of our pipeline, and both of the deals that fell out of our pipeline were our choice rather than deals that we lost to other people. And typically deals fall out of our pipeline either for diligence reasons, meaning that the intellectual property is somehow flawed, or we're not confident in the commercial launch of the product in some fashion. So those are the typical reasons that they fall away or we just think that the risk/reward is not there.

There were a couple of deals that, as a result of that kind of attrition in our pipeline, fell away. The pipeline, however, remains quite robust and we, as I mentioned in my remarks earlier, as I'm sure see yourself in a variety of different contexts, are seeing a ton of deal activity across all three of our verticals, inventors, academic institutions, as well as corporates. In the case of corporates, this deal activity in the near term is just driven by very weak biotechnology company valuations as well as diminishing cash flows that are just driving the demand for our kind of financing and then royalty monetization or royalty transactions are becoming very attractive as a result of that.

Regarding our near-term pipeline, as you know, we divide our pipeline into the near-term and long-term pipelines. Near-term deals are deals that we expect to be able to close in the next six or nine months and then longer-term deals are deals that we're developing for the subsequent period. But our near-term pipeline sits about $1.7 billion right now. As I mentioned earlier, it's comprised of ten or more deals. We have three deals right now that are effectively under exclusivity, and we hope to be able to close on at least two of these transactions in the next 60 days or so. We are doing our diligence and, as I mentioned earlier, we're going to be prudent and careful about capital allocation and not take any crazy risks but, subject to the completion of our diligence, then that's the timing that's in effect. And I think the total of these transactions will be in and around the $100 million range.

Finally, I'll say that all the deals in our pipeline, whether it's the three deals that I just mentioned or deals that are under development still but not under exclusivity, meet our investment criteria. They all treat very serious conditions and provide a ton of patient value in the treatment of those conditions. They all benefit from strong intellectual property as well as capable and effective marketers. Did I miss any parts of your questions, Greg?

Greg Fraser — Analyst, Truist Securities

No, you got it all, and that was great colour. Thanks very much. Just one quick follow up on the buyback plan. Can you just speak to your appetite for continuing to buy back units with stock in the $7s? Thank you.

Stewart Busbridge — Chief Operating Officer, DRI Capital Inc.

Thanks, Greg. It's Stewart. We have always viewed the normal course issuer bid as opportunistic. In December, when it was most active, we acquired a few blocks that were out there. I think we'll continue to do that. We don't really have any bright lines in terms of the prices at which we'll buy, but clearly the math is a little different at the prices we're at now than they were back in December. The program continues and we'll be in the market as appropriate, but we don't have any specific targets in mind.

Greg Fraser — Analyst, Truist Securities

Got it. Thank you.

Operator

Your next question comes from Chelsea Stellick with iA Capital. Please go ahead.

Chelsea Stellick — Analyst, iA Capital

Hello. Good morning. I just have a couple questions. The first one is on Natpara. Just hoping to get a little bit more colour on the complete response letter received from the US FDA. How should we look at Natpara going forward on a model basis?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Chelsea, thanks for the question. Unfortunately, we don't have a ton of colour on the CRL beyond what's in the public domain. We know that they received a CRL, we know that Takeda's disclosure has been that they're working through the CRL issues and hoping to remedy the situation as quickly as possible, and we know that they also haven't given up on the product so to speak. It is currently available on a limited or restricted-use basis and continues to be available on a restricted-use basis as a drug.

Our expectation is that, based on what we know and based on the original reasons why Natpara ran into these issues, is that it shouldn't be something that is too complicated to resolve. I think it requires Takeda to switch to a new auto-injector, which is something that happens not particularly commonly in the pharmaceutical industry but happens from time to time and certainly there's precedent for doing it, and we expect that that transition should happen over the next few months. But unfortunately, we don't have a ton of specifics beyond what's out there already.

Chelsea Stellick — Analyst, iA Capital

Even with (inaudible) issues and things like that, you think that the next few months we might be able to get some colour on that?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Yeah, I'm hopeful over the next few months Takeda will make some disclosures and we'll be able to get some additional colour on it. But again, the switch to a new auto-injector, is complicated, but it's not something that hasn't been done before, so we expect that they'll be able to do it reasonably quickly.

Chelsea Stellick — Analyst, iA Capital

Okay. And the only adjustment on your end is the push out one year in terms of the expiration or the contractual cap, correct?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

That's correct.

Chelsea Stellick — Analyst, iA Capital

Thank you. And then my second question is just in terms of Xolair. (Inaudible) expected to continue or is this just seasonal based on allergies and whatnot?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

I didn't catch the last part of what you said.

Chelsea Stellick — Analyst, iA Capital

Is the stronger market demand for Xolair, is that expected to continue or is this something that we see as just seasonal?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

I hope it continues. I think Xolair is a terrific product. It treats very severe allergic conditions, so it doesn't have the seasonality characteristics that you would see in drugs that treat more moderate and less severe conditions. It also has the benefit of being approved as a treatment for hives and other sorts of indications as well. We think it is a very strong product. There will be some up and down associated with it because there is a sharing provision on that transaction with the people that we did the deal with, but that pattern has always existed in our cash flows.

I think that the other thing that will be helpful, down the line, is that Novartis' Ligelizumab, which was expected to be a competitor to Xolair, is running into some difficulty in its clinical trials so, at a minimum, the introduction of that product is going to be delayed, which we think will be beneficial to the sales of Xolair over the course of the next sort of two to four years.

Chelsea Stellick — Analyst, iA Capital

Perfect. That's it for me. I'll jump back in the queue. Thank you.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Thank you.

Operator

Your next question comes from Endri Leno with National Bank. Please go ahead.

Endri Leno — Analyst, National Bank Financial

Good morning. Thanks for taking my questions. Just a couple for me. I'll start with the pipeline: to the extent that you guys can share, can talk about what kind of therapeutic areas are you looking at there, what more is coming, and also any colour you can give in terms of the development stage of these products? Are they late development, more like Vonjo, or are they commercialized? Any colour around there would be great.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Absolutely and thank you very much for the question. I appreciate it. Our pipeline is a reflection of innovation and dynamics in the pharmaceutical and biotechnology industries, so you'll see that our pipeline has, over time, comprised of drugs that are highly innovative and in the fastest growing segments of the industry. Our current pipeline is no different. The deals that we're looking at right now, the three products I mentioned earlier, are rare disease kinds of products. They are products that treat previously untreated or treat conditions that had limited treatments previously with the normal characteristics of rare disease products. We also have a number of oncology products that are in our pipeline. We have a

couple of products that treat serious pain kinds of conditions, autoimmune products, and products in therapeutic areas like that. Therapeutic area wise, all the drugs in the pipeline that treat very serious conditions, do a good job treating those conditions. They provide benefits to the system in the terms of benefits to patients, in terms of quality of life and survival improvements and certainly benefits to payers as well as to (inaudible).

All of the drugs that we're looking at right now are on the market and generating sales, so they will have had six or twelve months at least of cash flow history behind them prior to us making the acquisition, sometimes longer. So they're all down the middle of the fairway, so to speak, in terms of the deals that we like to do.

Endri Leno — Analyst, National Bank Financial

That's great colour. Thank you. And the other question, you mentioned, Behzad, that one of Xolair's competitors is running into problems in the clinical trials. Are there any other drugs in your portfolio that have seen or are on the cusp of any label expansion that you can share, which would obviously help with your royalties?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Let me just go through my database here mentally for a moment. I'm not sure if there are any products that are on the cusp of a formal label expansion. I think two of our products in particular, two of the larger products, could benefit from clinical data and scientific papers that would allow for broader use of the product, either off label or broader use within approved labels. Spinraza specifically has some

interesting clinical data or clinical trials that are underway regarding the use of Spinraza after the use of its competitor, a sort of combination use of Spinraza, so to speak, along with its competitors. That could be beneficial for the sales of Spinraza going forward. And then Zytiga always has clinical trial activity in the prostate cancer space that could sort of further cement the position that Zytiga has as a leading therapy across multiple different kinds of prostate cancer. So, those two could deliver sort of catalysts going forward. Rydapt has a number of clinical trials underway. Obviously, that's a smaller component of our portfolio but that could be beneficial in the future as well.

Endri Leno — Analyst, National Bank Financial

Okay. That's great colour. Thank you. That's it for me.

Operator

Ladies and gentlemen, as a reminder, if you do have any questions, please press star one.

Your next question comes from Doug Miehm with RBC Capital Markets. Please go ahead.

Doug Miehm — Analyst, RBC Capital Markets

Hi, Behzad. Just to wrap up on the deals that are near term, perhaps those that are under exclusivity right now, could you just describe where those products might be in their lifecycle? I know you mentioned maybe six to twelve months after launch, but just curious about that in a bit more detail and generally what the duration of these deals might look like. Are they any different from your normal eight years? Are you looking at longer duration assets? And then, where'd they be in the lifecycle.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Absolutely, Doug. Thank you very much for the question and thanks for taking the time. The three that we have under exclusivity or effectively under exclusivity are products that are on the market. I think their cash flow history for the most part is about fourteen months or so and by the time we close the deals, it'll be around a year and a half or so of cash flow history associated with them, both in the United States and the European Union. They're well into being launched, but certainly in the early part of the sort of upward curve of their sales.

Both of these drugs will increase the weighted average duration, or all three of the deals I should say, will increase the weighted average duration of our portfolio. I haven't done a calculation to see how long it will make the weighted average duration, but I expect that it'll sort of take it from nine to ten years or something like that. So they are accretive, so to speak, in that way.

Doug Miehm — Analyst, RBC Capital Markets

Okay. That's great. And could you talk about the launch preparations for Vonjo. Now I know you did indicate that it was added to the guidelines, but is there anything more specific that you can tell us about this fairly important drug for the Company?

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

I wish there was something more specific I could tell you. Unfortunately, we don't have a ton of information. CTI, obviously, is reporting at the end of the day tomorrow, so we'll get a lot more information about how the launch is going.

Based on conversations that we've had and public disclosures that CTI have made, CTI has assembled a very strong execution team so to speak, both from a senior management perspective and a sales force and regional management perspective, and I've got to tell you they've done a phenomenal job at that and some of the best that I've seen in the biotechnology industry. So the marketing, sales, and support related to those activities has been well in place and so I think that's good.

The NCCN guidelines, as I'm sure you know, is a very strong tailwind for the product and getting those up reasonably quickly has been good. I think CTI has been happy with the relative breadth of the NCCN guidelines and could result in some off-label use of the product. We're super happy with the reception that the product has received, both in the community and the academic sort of oncology settings. I think community setting is particularly important for driving the sales of the product.

So, generally speaking, the indications are that it's a reasonably strong launch and I'm confident that CTI's report tomorrow afternoon will sort of reflect that.

Doug Miehm — Analyst, RBC Capital Markets

Excellent. Okay. Thank you, Behzad.

Operator

Your next question comes from Catharine Sterritt with CIBC Asset Management. Please go ahead.

Catharine Sterritt — Analyst, CIBC Asset Management

Thank you. I wanted to ask you if you could expand a bit on what terms and pricing of the new debt facility is. Also, with how quickly we're seeing interest rates starting to move, can you talk a little bit about the pricing of royalties and their competitiveness and also whether you changed your return hurdles. How do you think about the environment we're in? Thank you.

Stewart Busbridge — Chief Operating Officer, DRI Capital Inc.

It's Stewart here. I'll address the credit facility. The terms largely are unchanged. In our MD&A we talk about it. We have shifted from a LIBOR-based loan to SOFR, so that's one shift based on just the ending of (inaudible) that's upcoming. But other than that, the terms are largely the same as the pre-existing facility.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

In terms of the pricing of royalty streams, I think, as a general rule, the price that we use and the threshold that we use for targeted returns are a function of, I would say, ten-year yields in the sense that if ten-year yields go up then our pricing for these deals tends to go up as well. We're in a fairly private market in terms of the deals that we do, so it usually takes a little bit of time to catch up with ten-year yields and there's pricing expectations and stuff like that. But historically, the way our market has behaved and the way certainly we've behaved is that the threshold pricing that we use for acquisitions of new products is sort of based on, at least in part based on ten-year yields in the US, and I don't think anything will be different this time around.

Catharine Sterritt — Analyst, CIBC Asset Management

That’s great. Thank you very much.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

No problem.

Operator

There are no further questions at this time. Please proceed.

Behzad Khosrowshahi — Chief Executive Officer, DRI Capital Inc.

Thank you very much, folks, for taking the time to join the call. We very much appreciate it. Look forward to speaking to you again soon. Thank you.

Operator

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