DRI Healthcare Trust

DRI Healthcare Trust 2023 Third Quarter Earnings Call

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PRESENTATION

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust's 2023 Third Quarter Earnings Call.

Listeners are reminded that certain statements made on 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 the annual information form, and DRI Healthcare Trust's other filings with Canadian securities regulators. DRI Healthcare Trust does not undertake to update any forward-looking statements. Such statements speak only as of the date made.

Today's presentation also references non-GAAP measures, including total cash receipts, normalized total cash receipts, total cash royalty receipts and Adjusted EBITDA, and certain non-GAAP ratios including Adjusted EBITDA margin and adjusted cash earnings per unit. These measures and ratios are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures disclosed by other issuers. Rather, these measures and ratios are provided as additional information to complement those IFRS measures by

providing a 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 U.S. currency unless otherwise specified.

I want to remind everyone that this conference call is being recorded today, Tuesday, November 14, 2023.

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, Operator, and good morning, everyone.

Thank you for taking the time to join us today. With me today are Chris Anastasopoulos, our Chief Financial Officer, and Navin Jacob, our Chief Investment Officer.

In the past quarter, our teams continued to do a phenomenal job executing against our strategy of generating long term growth and value for our unit holders. In July, we deployed $66 million to acquire an additional royalty on the sales of Vonjo, which is a groundbreaking treatment for patients suffering from myelofibrosis. This new transaction entitles us to a tiered royalty on the worldwide sales of Vonjo and, unlike the first royalty, our entitlement is uncapped. We are also entitled to receive up to

$107.5 million in potential milestone payments. The change in the economic profile of this Vonjo deal versus the original deal we transacted on some time ago is indicative of the more fertile investing environment we are currently in.

In August, we deployed $130 million to acquire an additional royalty on the sales of Orserdu, which is a highly effective therapy for the treatment of certain kinds of breast cancer. The transaction entitles us to a low to high single digit tiered royalty on worldwide sales.

In the quarter, we further bolstered our ability to act on opportunities in the market by completing two follow-on offerings for total proceeds of $151 million. The funds from these offerings, along with our credit facility, will provide us with adequate funding for our normal course transactions. We continue to deliver value to our unit holders with our regular quarterly distribution of $0.075 per unit.

Our third quarter results underscore the growth trajectory of the Company. We recorded $25.2 million in normalized total cash receipts, a 34 percent increase over the same period last year. We recognized $34.1 million in total income, a 29 percent increase over the same period last year, and we recognized $20.3 million in Adjusted EBITDA, a 28 percent increase over the same period last year. All of which translates to an Adjusted EBITDA margin of 80 percent, bringing our 12-month-to-date Adjusted EBITDA margin to 86 percent. Finally, we delivered $0.46 in adjusted cash earnings per unit and, as mentioned, declared cash distributions of $0.075 per unit.

At the end of October, we increased our available dry powder by expanding the total available credit under our credit facility to $500 million. The facility consists of $375 million for acquisitions, $25

million for working capital, and a $100 million term loan. It is important to note that our ability to expand our credit facility is based on the financial contributions from the deals that we have recently completed. As such, while our absolute amount of debt may increase in line with the increase in our cash receipts and EBITDA, none of our leverage ratios will increase. We will continue to target a leverage ratio between two to three times debt to trailing EBITDA.

Combined with our equity issuances and the cash flow from our royalty streams, we now have over $300 million in dry powder to deploy in near term transactions. With this increased capacity, we can operate the business organically for the foreseeable future. At quarter end, we announced our Q4 normal distribution of $0.075 per unit for unit holders of record on December 31, 2023.

We also received approval from the Toronto Stock Exchange to purchase up to 3.1 million units under our normal course issuer bid. In the nine months ended September 30, we acquired and cancelled approximately 326,000 units under our previous NCIB and created roughly $14.5 million in value for our unit holders in doing so when compared to the current market price.

This table shows the individual royalty receipts for the quarter in comparison to the same period in 2022. At a high level, we are pleased that total cash royalty receipts increased by 44 percent compared to a year ago. This was primarily driven by royalties on the sales of Orserdu, Xenpozyme, Omidria, and Vonjo. Orserdu's launch is progressing well, and we expect it to continue now that it has received European approval. Omidria performed as expected in this quarter, reaching revenues well beyond our royalty cap. Xenpozyme saw 34 percent quarter-over-quarter growth as it continues reaching new ASMD patients.

The portfolio also benefited from a full quarter of royalties on the sales of Zejula compared to only month in the third quarter of 2022. Zejula saw 21 percent year-over-year growth mainly attributed to increased U.S. sales which outpaced ex-U.S. sales for the first time this year. This increase in sales is due to the switch from a capsule to a tablet formulation, leading to an improved patient experience and increased compliance.

The diversity of our portfolio is one of our main strengths and we continue to see success from other tenured stable assets, as well as our new growth assets. Xolair saw year-over-year growth of 2 percent with third quarter sales of $634 million, primarily driven by uptake in chronic hives. Roche secured U.S. approval for the Xolair auto injector in the quarter, providing an option for patients with added convenience. Roche anticipates news from the Phase III trial of Xolair in food allergies by the end of the year.

Oracea saw a strong quarter following Galderma's new agreement with Mayne Pharma to market the authorized generic. Spinraza saw 4 percent year-over-year global revenue growth in third quarter driven by U.S. patient growth and benefiting from the timing of shipments in certain ex-U.S. markets. Biogen sees Spinraza returning to consistent growth over time. These increases were partially offset by the expected contractual step-downs and expiries in our royalties on Eyelea, FluMist, Rydapt, and Stelara, Simponi and Ilaris.

Looking forward to the next several quarters, we remain very excited about the value and growth we can deliver to our unit holders as we capitalize on our strong position in our targeted markets. We will continue to use our 34-year track record of systematic, data-driven sourcing and execution to

capitalize on both short term and long term tailwinds that we anticipate will lead to a generational growth opportunity in our industry. We believe our ability to execute with this backdrop will allow us to continue enhancing our leading portfolio and generate uncorrelated and high yielding and high margin returns for our investors.

Our flywheel leverages our exceptional team, disciplined capital allocation, proactive sourcing, and strong execution to deliver value for our unit holders. You can see the effect of this flywheel on the results that we have posted so far this year. Our seasoned investment team is comprised of specialist investment professionals with deep skills and expertise in the life sciences industry. Our rare combination of skills has allowed us to deliver great results. Our disciplined capital allocation model based on a set of investment criteria we have developed and refined over more than 20 years has generated a 22 percent net return across three private equity funds before going public. This is the level of performance that we intend to replicate as a public company.

One of the reasons we can achieve these returns is that our long tenure in the industry has enabled us to build an active sourcing model for royalties that combines our global network with a proprietary database of more than 7,500 known or potential royalties on over 2,500 different drugs. Having evaluated thousands of potential transactions, we have the systems and experience to conduct exhaustive, rapid, ground-up diligence on each of the assets that we consider, which allows us to provide our counterparties with a certainty of execution that few can replicate. Our goal is to continue to press hard on these competitive advantages and barriers to entry as we grow the business for the future.

As we source opportunities to continue deployment in the growing royalty market, we designed a business model to deliver efficient and optimum unit holder value. This model enables both regular and reliable distributions to unit holders and reinvestment of cash flows from royalty proceeds into new assets. Reinvesting in the portfolio and creating a permanent capital vehicle was one of the main drivers of going public and is at the core of our business model.

The cash generated by the assets currently in the portfolio allows us to redeploy and fund future acquisitions, grow the portfolio organically, and ultimately secure long term returns for our unit holders. Over time, the continued reinvestment compounds and leads to exponential growth. Using the return profile illustrative of a typical deal on our historical averages highlights the power of compounding. As we continue moving forward, we anticipate organic portfolio growth at a rapid pace to deliver value for our unit holders.

I will now turn the call over to Navin.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Thank you Behzad.

The long-term growth of the pharmaceutical industry is providing us with many opportunities to acquire high quality royalty assets. We are on the cusp of what is anticipated to be a generational industry growth driven by the development of therapeutics that will improve the lives of patients throughout the world. The number of products developed between Phase I trials and registration has

increased nearly 50 percent over the past five years. This pipeline is growing not only in quantity but also in quality and diversity due to decades of scientific progress and innovation.

In 2023, the FDA is expected to approve 57 new drugs, the highest number in the past five years. Several of these have the potential to be the first available treatments in their indications. As a result of this growth, spending on pharmaceutical R&D is forecast to grow by 17 percent over the next five years. This will be driven by the pace of innovation, the increasing complexity of modalities, and the request from regulators and payors for more extensive clinical and real world outcomes. These trends in innovation along with increased life expectancy and improved access in emerging markets, are ultimately expected to drive growth in worldwide medical spending that is forecast to grow to $2 trillion in 2027 from about $1.5 trillion in 2022. Together, these trends make up a positive outlook for the royalty financing sector with a long term opportunity for us to acquire attractive royalty streams from diverse sources.

In an environment where capital markets remain slow and interest rates are high, many biotech companies have limited options to secure their next tranche of capital. As a result, companies are turning increasingly towards royalty financing to support their operations. We take time to understand the needs of our counterparties and structure bespoke proprietary win-win transactions. No two deals are the same and each tailored to address both the immediate and long term objectives of royalty holders. In this context, royalty financing is now a core part of the capital strategy for biotech executive teams. Over the past five years, both the number of royalty deals and the quantum of capital provided have doubled. We expect this growth trend to continue.

These trends can also be seen in our performance since the IPO, as we have been one of the most active players in our industry over the last two and a half years. At the time of the IPO, we said our target was to deploy between $650 million and $750 million over the first five years as a public company. We have already surpassed that goal, having deployed $766 million in royalty transactions with a further $51 million to be deployed in potential milestones. Because of our strong pace of development earlier this year, we revised our deployment targets to $850 million to $900 million by the end of 2025, and we are well on our way to achieving and surpassing that target.

Our cash flow profile has changed dramatically since the IPO. Our initial group of assets were declining over the long term. With the transactions and the growth assets we added to the portfolio, we anticipate mid-teens CAGR for our total income through 2025 and low single digit CAGR through 2030, and these CAGR expectations are excluding new transactions. We have also extended the portfolio's duration to over 10 years, in line with our target for 2025. Most importantly, we have positioned ourselves for continued strong execution. Our recent follow-on offerings and newly expanded credit facility provide us with over $300 million of deployment capacity to continue to execute on our growth strategy.

As of today, our portfolio consists of 26 royalty streams on 20 products. Since going public, we have completed 11 acquisitions. In just two and a half years, we have already surpassed our five-year target as stated at the time of the IPO.

Now I'd like to provide more detail on our transactions in the quarter. At the end of our second quarter, we announced that we acquired a royalty interest in Orserdu for $85 million. Orserdu is the first

and only approved targeted therapy used in treating post menopausal women or adult men with ESR-1 mutated ER+/HER2 negative metastatic breast cancer, who have experienced disease progression despite prior endocrine therapy. Since being introduced, Orserdu has performed better than expectations at the time of underwriting the first deal. Based on the drug's deep sales ramp, we are excited to increase our exposure to this transformative and long duration asset.

In August, we purchased a second royalty interest on the global sales of Orserdu for $130 million upfront and $10 million in event-based milestone payments. The first Orserdu royalty entitles the Trust to a mid single digit tiered royalty payable quarterly with a one quarter lag, based on sales beginning on April 1, 2023. We are also entitled to receive up to $55 million in both sales and regulatory-based milestone payments. The EMA approval of Orserdu in September triggered a $2.75 million milestone royalty payment which we expect to receive in the fourth quarter.

The second Orserdu royalty entitles the Trust to an additional low to high single digit tiered royalty payable with a one quarter lag, based on sales beginning July 1, 2023. In addition to the royalty payments, we are also entitled to receive up to $40 million in milestone payments when the drug achieves certain sales thresholds. Orserdu continued its strong launch with significant sales in the third quarter, ahead of our expectations at the time of underwriting the second deal. The short payback period and significant near term cash flows of these investments will allow us to redeploy significant cash flows into new investments, allowing us to diversify our portfolio further.

In July, we acquired an additional royalty stream on Vonjo for $66 million. Vonjo is currently marketed by Sobi and is used for treating myelofibrosis patients with severe thrombocytopenia. It is the

only approved treatment for this indication. Since its approval, Vonjo has successfully addressed the unmet needs of cytopenic myelofibrosis patients and has grown faster than our initial expectations. Since the acquisition of CTI by Sobi, Vonjo has continued exhibiting strong growth with sales performance that is in line with our expectations. This S*Bio transaction entitles us to a tiered royalty on worldwide sales of Vonjo and quarterly payments based on sales beginning April 1, 2023.

Unlike the first synthetic CTI Vonjo royalty, our S*Bio entitlement of Vonjo is uncapped on worldwide sales. We received our first payment for the S*Bio transaction this quarter. We are also entitled to receive up to $107 million in milestone payments. Sobi reported U.S. net sales of $32 million in the quarter, indicating 13 percent quarter-over-quarter growth. With the integration of CTI now complete, Sobi holds a strong outlook for Vonjo, with Sobi management noting that they expect, quote, significant acceleration into 2024, unquote. The conditions required for the second milestone payment for Vonjo I of $18.5 million were not met by the end of the third quarter and the additional milestone payment was not made.

We continue to execute our strategy against a pipeline that is more robust than we have seen for decades with approximately $3 billion in opportunities. The deals we are looking at are all high quality and meet or exceed our qualitative and quantitative investment criteria. Our focus will remain on acquiring royalties on products that have the potential to change and improve health outcomes and quality of life for patients. We will also require these therapies to be marketed by life science companies that can successfully launch and grow the treatment in their target markets. We intend to acquire those therapies that benefit from solid and long lasting intellectual property protection. This aligns with our target of a weighted average portfolio duration of over 10 years.

Our near term pipeline, which includes deals that could close within six months, stands at 12 opportunities with a total potential value of over $1.4 billion. These deals range from $35 million to $250 million and cover a diversified set of disease areas. The back end of our pipeline is comprised of 19 opportunities with a total potential value of over $1.6 billion and similar characteristics. While opportunities are growing in the market, there are still significant barriers to entry for potential new entrants, and we hold a solid competitive advantage.

The royalty market is relatively opaque and complex to access. Complicated ground-up due diligence is needed to understand each asset and successfully execute a deal. We have not seen any new firms trying to enter the market over the recent months.

I will turn the presentation over to Chris.

Chris Anastasopoulos — Executive Vice President; Chief Financial Officer

Thank you, Navin.

As at September 30, we had cash and cash equivalents of $28.2 million and $40.9 million of royalties receivable. After the end of the quarter, we expanded our total available credit under our credit facilities to $500 million. With $148.3 million outstanding, we have $351.7 million available. This clearly shows that we are well capitalized to act on the attractive opportunities in the market, as previously outlined by Behzad and Navin.

We continue to generate strong cash flow from our assets. For the 12 months ended September 30, our normalized total cash receipts were $110.1 million, including total cash royalty receipts of $105.3

million and interest and other income of $4.8 million. Our operating expenses and management fees for the 12 months ended September 30 totaled $16 million, resulting in an Adjusted EBITDA of $94.1 million and an Adjusted EBITDA margin of 86 percent. For the 12 months ended September 30, we generated $1.74 in adjusted cash earnings per unit.

I will now turn the call back over to Behzad.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you, Chris.

In 2023 and beyond, we intend to remain focused on our three key priorities. First, we plan to continue to invest in our people and continue to help them build their skills and competencies. DRI Healthcare has been a pioneer and leader in royalty financing for over 30 years, and our team's skill at identifying and closing accretive transactions is vital to our success.

Next, we aim to execute against a robust pipeline, the largest we've seen in the Company's history. With the current market constraints on biotech financing and the high demand for new and innovative treatments combined with our skills in sourcing and closing deals, we continue to operate at what we consider peak performance in all aspects of our business and see multiple opportunities to deploy our capital.

Finally, this volume lets us pick high quality transactions that we believe will deliver long term accretive value for our unit holders. We intend to continue to be a critical partner in advancing

innovation in the life sciences sector by providing funding to parties across the pharmaceutical value chain.

With that, 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. (Operator instructions)

Thank you. Our first question comes from Les Sulewski at Truist Securities. Please go ahead, your line is open.

Les Sulewski – Analyst, Truist Securities

Good morning, thank you for taking my questions. I have two.

First on the $3 billion pipeline and it appears 1.4 is at the front end, is there a pecking order for certain therapeutic categories on the front end, and essentially are there any long term opportunities in the GLP-1 space? Then I have a follow-up, thank you.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Les, thank you very much for the question, I appreciate it. Navin, I'll turn it over to you to talk about the pipeline.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Sure, thanks Behzad, and thanks Les for the question. Our pipeline is strong and filled with high quality assets, both near term and long term. As you mentioned, it's $3 billion. We are excited about the therapeutic areas that we have in that pipeline. As you may know and as we've stated before, Les, we are therapeutic area-agnostic. We just try to find assets that we believe will add value to society, that have a good pharmacoeconomic benefit or have a good efficacy to risk ratio, a benefit to risk ratio, and importantly also will be financial attractive for DRI but also allow for the counterparty, the seller to also do well for themselves. We try to create win-win solutions, which are not easy to do.

With regards to your question about exposure to GLP-1s, or the GIP GLP-1 space, that's not something that we are going to talk about at this time. We don't talk about any specific opportunity in our pipeline until post deal. It doesn't help anyone, it doesn't help us nor the counterparty, especially if we're in confidentiality discussions with them. With that said, we don't necessarily chase a specific area that may be hot today because, as you know, it could very well turn around tomorrow. I'll leave it at that.

Les Sulewski – Analyst, Truist Securities

Makes sense, appreciate the colour on that. Then in regards to the recent unit repurchase program, is there an accelerated component to this, and essentially is this just sort of a housekeeping item and how does this impact your capital allocation strategy given the recent follow-on offerings? Then I guess a follow-up to that is are there certain thresholds that you can share that would qualify for execution? Thank you.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Les, thanks very much for the second question. We've had a normal course issuer bid, or NCIB program for two and a half years or so now. We've been disciplined in how we allocate capital towards repurchasing and cancelling shares versus towards doing deals. I would say at this point in the market and the deals that we're seeing, we feel that it's more accretive to buy royalty streams on the deals that are in the pipeline as opposed to repurchasing our shares, just because of the returns that we're getting and the structural advantages of those deals that we're seeing. Obviously, we evaluate this on a regular basis and for us, it's a very disciplined decision to make. But right now, we're buying royalties as opposed to buying shares.

Les Sulewski – Analyst, Truist Securities

Got it, thank you.

Operator

Thank you. The next question comes from Doug Miehm from RBC Capital Markets. Please go ahead, your line is open.

Douglas Miehm – Analyst, RBC Capital Markets

Yes, good morning. A couple questions. The first one just has to do with Orserdu. Now, the data that we've received both from (inaudible) and Simponi is off a little bit, maybe you could talk about what you're seeing on the ground and if you're still as enthused about the opportunity with that product,

particularly given the EMA approval and what might happen there, and then if there are any new trial readouts that you would be looking for as it relates to that specific drug.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Go ahead, Navin.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Thanks Doug. With regards to third party sales data, we try not to comment too much on them. On the other hand, generally speaking those data are trending in the right direction and similar to what we're seeing, but I wouldn't look at any one given month. As you know, Doug, these data are not super precise directionally speaking. Are they good? Sure, and what we see there as well as what we are seeing with the real sales that are coming in, is that the sales are strong and, certainly relative to when we did the first deal, much stronger than we anticipated and in line with our expectations at the time of conducting the second deal. We're happy about the performance thus far.

With regards to near term trial readouts, nothing specific that we are worried about or really excited about. Everything is on track with our expectations. It's only been a couple months since—I know it feels like a while, but it's only been a couple months since we acquired the asset, nothing new to speak to.

Douglas Miehm – Analyst, RBC Capital Markets

Okay. Then just on the deal pipeline, $1.4 billion sounds good, but can you tell us how many of those would be--

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Sorry Doug, are you still there or is it just me?

Operator

Yes, Doug's line has disconnected, unfortunately. If he joins back in, we'll get him to join again. I will move onto the next question. The next question is from Scott Fletcher from CIBC. Please go ahead, your line is open.

Scott Fletcher – Analyst, CIBC Capital Markets

Hey, good morning. I have a feeling Doug was about to ask about the near term pipeline and how many of those deals might be in exclusivity, that was also on my list, so I'll ask the question.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Scott, I appreciate your question. I'll turn it over to Navin to talk a little bit about that.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Yes, with regards to near term opportunities, we do have a few deals that are—about three to four deals that are near exclusivity right now. All those opportunities are consistent with deals that you've seen us do in the past, both in terms of the quality and in terms of the type—the size or the type of deals that we do, and they match the investment criteria that we have internally. We're doing our diligence on each of those opportunities. We hope to be able to be able to choose from one or more of those transactions in the next 60 to 90 days.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Yes, and Scott, the one thing I would add to what Navin is saying is also that we're continuing to see, based on the comments you heard from us on the call, we're continuing to see deals that are attractive from a return standpoint as well as attractive from a structural standpoint. We're pretty excited about the opportunities that are ahead of us.

Scott Fletcher – Analyst, CIBC Capital Markets

Okay, thanks, and then something of a follow-up, I wanted to ask about the timing of the equity raise. After the last raise—after the first raise this year, you had an acquisition announcement pretty close after that. This time, it's looking like there's going to be a longer lag. Was there anything that drove the longer timeline to a deal there? Just trying to understand what drove the timing, really, on the second raise.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

On the second raise, we raised, I think it was roughly around the middle of September, and at that time, and what continues today is, that we have four or so deals that are in active diligence in our pipeline. We didn't want to, or we couldn't at that point, handicap which was going to close first and when it was going to close. We felt that it would be more prudent to raise the capital and have it in our pocket, so to speak, so that we could deploy against these deals on a rolling basis as they close, and that was the rationale behind the equity raise.

Scott Fletcher – Analyst, CIBC Capital Markets

Okay, thanks. I'll pass the line.

Operator

Thank you. The next question comes from Ash Verma from UBS. Please go ahead, your line is open.

Ash Verma – Analyst, UBS

Yes, good morning. Thanks for taking our questions. I have two. One was just on Empaveli, we're hearing incidents of vasculitis that seems to be an evolving safety update. I know the innovator has talked about a different type of data here on severe events or the absolute number. Just wanted to see from your vantage point, what do you see on this and how does this impact the commercial opportunity? That's the first one.

Just the second, in a rising interest rate environment, is that shaping your view of how you are approaching the portfolio construction? Are there certain opportunities here that might be—you might pass on versus the others, and anything that you can provide colour on does that change the calculation, focusing on more commercial or pipeline assets? Thanks.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Ash, thank you very much for the question. Navin, why don't you take the first part, and I can jump in on the second part.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Sure. Hi Ash, I hope you're well. Thanks for your question. On Empaveli/Syfovre, a couple things. Number one, the discontinuation rates as reported by Apellis remain quite low. The rate of retinal vasculitis is pull 1 percent, as seen with Empaveli. Now, this is in line with the natural rates seen, or the background rates seen in geographic atrophy. There are no new cases since the last update in September of 2022. We're not concerned about the retinal vasculitis cases, particularly given the fact that, as you know, our entitlement on Empaveli is capped at $500 million—on Empaveli/Syfovre, on pegcetacoplan, the molecule. It doesn't take a significant amount of geographic atrophy penetration in order to reach our cap, and so we're not--it has minimal impact on our entitlement overall.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Ash, I'll take your question about the rising interest rate environment and portfolio construction, and questions like that. I think what you're hearing from Navin and myself is on the deals that we're

looking at, really sort of the spreads over interest rates, so to speak, have remained pretty constant. Three years ago, four years ago, when interest rates were much lower, we had a certain spread over interest rates, and that's the rate at which we were doing deals. Today that rate is consistent, which is why you're seeing us do transactions with much more attractive sort of IRR characteristics associated with them.

The other factor is that the structural elements of the transactions that we're seeing, transactions that are uncapped and give us access to the upside associated with these various drugs, are pretty attractive for us as well right now and we're continuing to see that going forward.

I think Navin, myself and a couple other people on our team work very closely with each other on capital allocation and capital allocation decisions. What you heard from Navin is that we have a very strong pipeline that him and his team have developed, and that puts us in a position where we can allocate our capital into what we believe are going to be the smartest deals to do. We're happy with where things stand on that basis as well.

Ash Verma – Analyst, UBS

Thanks.

Operator

Thank you. The next question comes from George Farmer from Scotiabank. Please go ahead, your line is open.

George Farmer – Analyst, Scotiabank

Hi, good morning. Thanks for taking my questions, a couple. Regarding Orserdu, can you speak to any other near term milestones that you might be expecting this quarter or into next year? Then more broadly, can you talk about the climate of your deal negotiations? It seems that there does seem to be this mix of capped versus unlimited deal structures regarding royalty income. Is this a trend that's going to go forward? Is this going to be more on the capped side or more on the unlimited side? How do you see that happening over time?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

George, thanks very much for the question. Navin, I can turn that over to you.

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Yes, on Orserdu, first the—yes, we do anticipate a sales-based milestone in the near term. We can't give you exact details yet until we have 100 percent clarity on that, but over the next three to six months, you should—we anticipate to be paid a near term sales-based milestone.

With regards to the capped versus uncapped, that's a good question, George, and an important one because—and I didn't fully appreciate this until I joined DRI two years ago at this point, and once internal I realized that royalty transactions or royalty financing is not as simple as it sounds. There's a very wide gamut of types of structures that can be created. On the one hand, on the very extreme is highly structured capped deals which are much more fixed income-like. On the other extreme is

uncapped deals that are more equity-like. Counterparties, and part of our job, my job and my sourcing team's job is to educate counterparties on the differences of the two.

We are more along the side of uncapped equity-type deals which have some significant benefits to the counterparties. Depending on the counterparty, and on the other end there are other good aspects to capped deals, they're very different. It really depends on the counterparty and their strategic needs, for them to decide what type of deal they want. But they are quite different at either end of the deal, and structurally with regards to the type of deal that's constructed and the type of contract that's created with the counterparties, they're both very different. They have different implications towards the counterparty's balance sheet. We see an increase in both types of deals, and there's everything in between. By the way, it's not one or the other. There are ways to do things that are in between.

I think what's most important, and this goes back to a question that was asked earlier as well, is that royalty transactions and financing are increasing in not only number but also in terms of comfort level with the C-suite of these biotech companies. Because at some point, not near term, we don't anticipate it, but at some point, the capital markets will stabilize and we'll get the natural question of, oh, with the capital markets better now, is that—does that make things more difficult for you? We don't believe so simply because I think CEOs and CFOs, and this is based on our conversations but also based on hard data of the transactions that are happening, is that the CEOs and CFOs of these biopharma companies are now becoming increasingly more comfortable with royalty deals and are being educated on them and understand the gamut of types of structures that can be created. Royalty deals will just be another option alongside fixed income deals or equity deals that biopharma management teams have and can use, in order to meet their strategic goals.

I don't know if we lost George or if I—if we answered the question?

Operator

Yes, thank you sir. The line seems to have disconnected, yes. Thank you. The next question comes from Rahul Sarugaser from Raymond James. Please go ahead, your line is open.

Rahul Sarugaser – Analyst, Raymond James

Good morning Behzad and good morning, Navin. Thanks so much for taking our questions, and hopefully my line doesn't get disconnected as well. My first question is we've seen OrbiMed recently raise a relatively large fund for its—to receive drug royalty monetization. There is some increasing competition in this space. Can you speak to that and how you guys are looking at this space more broadly in terms of competition?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much for the question, I appreciate it. Hopefully you don't get disconnected. I don't know what's going on. I just want to be clear that we're not disconnecting anybody!

I saw the announcement that OrbiMed made about that they had raised. One thing that I want to—one thing that's not clear to me is if that's old news or new news, because they had raised about a billion and a quarter or something like that, I want to say about two years ago. I'm not sure if they've just—if they're recycling some old news and creating a bigger number. But having said that, we've competed with OrbiMed for decades. Something that people don't know is that OrbiMed invested in our

first fund, and I think OrbiMed as an organization has great strengths and certainly is an organization that we want to learn from as time goes on. But we've competed with them for a very long time, and we know how to do it, and we've been largely successful at it.

Other competitors that are coming to market, as Navin noted earlier, we're not really seeing a lot of new competitors enter the market in any way, and we're generally pretty happy with the competitive environment that we're in.

Rahul Sarugaser – Analyst, Raymond James

Perfect, that's very helpful, Behzad. Thank you so much. A second question is we recently saw Menarini out-license Orserdu rights in China. Was this something that was calculated into the licensing agreement, or should we be looking at this more as sort of upside on the original agreement?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Navin, you want to—

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Yes. We had not included that in our valuation. That would be upside for us.

Rahul Sarugaser – Analyst, Raymond James

Great, and then just one very quick housekeeping question, we've seen the days of royalty receivables sort of jump a little bit this quarter. It's not completely out of the norm. We've seen it

happen before. Is this something that we should be expecting sort of going forward or do we look at—could this stabilize, particularly as you grow the portfolio?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Let us calculate that and get back to you. That's going to fluctuate a little bit based on just the normal trends in our business and the normal cycle in our business. Certainly, we're not seeing any red flags on our radar in terms of royalties overdue or days of royalty receivables coming in higher than we expect, and certainly that's something that we monitor fairly closely. But let us look into that in more detail, and we can give you a shout on that.

Rahul Sarugaser – Analyst, Raymond James

Great. Thanks again for taking our questions. I'll get back in the queue.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you.

Operator

Thank you. The next question comes from Tanya Armstrong-Whitworth from Canaccord Genuity. Please go ahead, your line is open.

Tanya Armstrong-Whitworth – Analyst, Canaccord Genuity

Good morning, everyone, thanks for taking my questions. First, just a follow-on on George's question about upcoming Orserdu milestones. The one that you did mention, can you just clarify, is that with respect to Orserdu I? I believe there is another sales-based milestone due there, or Orserdu II, and is there any way to give us a sense of the sizing of that?

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Tanya, that's—yes, Tanya, that would be with regards to Orserdu I, and we can't exactly give you that number. We're in the process of determining that, but in due course, we will certainly provide that as soon as there's some clarity on that. But it's all—it's a good thing, that's for sure.

Tanya Armstrong-Whitworth – Analyst, Canaccord Genuity

Yes, absolutely. Then secondly, maybe if you could just provide more colour on your partnership with the Mayo Clinic? I noticed you made a payment to them this quarter.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

The Mayo Clinic with its primary facility in Rochester, Minnesota, and secondary facilities elsewhere, engages in a lot of scientific research on regenerative medicines or cell therapies and gene therapies and diseases, and treatments for various rare diseases. We made a donation to them as part of a multi-year program, really as part of our mandate to advance science and research in our sector.

We're going to be making a formal PR announcement around it sometime in Q1, but that's the objective behind it.

Tanya Armstrong-Whitworth – Analyst, Canaccord Genuity

Okay, perfect. I will wait for that PR announcement, then. Then lastly on performance fees, I know you made the sizeable performance fee payment last quarter with respect to (inaudible). Are you able to provide an update at this time when we can anticipate more regular performance fees commencing?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Performance fee payments, as you know, are tied to the performance of the assets in the sense that there's no performance fee if the assets don't perform. At this point, we do not expect any material performance fees in the near to medium term. The assets that we are acquiring right now have to mature and show their results, and then after that there may be performance fees that are due to us, but we don't expect anything in the near to medium term.

Tanya Armstrong-Whitworth – Analyst, Canaccord Genuity

Perfect, that's all from me. Thank you.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thanks Tanya.

Operator

Thank you. The next question comes from Justin Keywood from Stifel Canada. Please go ahead, your line is open.

Justin Keywood – Analyst, Stifel

Good morning, thanks for taking my call. Just trying to square the targeted capital deployment target. I believe I heard $850 million to $900 million, and just with the live pipeline and inflection of royalty opportunities that you're seeing, I believe the pipeline is $3 billion.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

The math doesn't make sense to you, Justin? I'm joking! Look, I think that's a great observation and I appreciate you asking the question. As Navin said, we initially started at the time of the IPO with a much lower target. We beat that handily, and our current target sits around $850 million to $900 million. We've deployed about $766 million against that target, and we're coming awfully close to it. We want to be thoughtful about the next target that we put out there and it's something that we're working on. We will update the target with our—in the next couple months, but certainly with our Q1 results at the latest.

Justin Keywood – Analyst, Stifel

Understood. Then on Orserdu, just if there's any concern on concentration risk. Obviously, a pretty unique product and I understand that most of the competing options are in IV form versus oral, but any comments around that?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Navin, you want to take that, and I can add to it, to the extent necessary?

Navin Jacob — Executive Vice President, Chief Investment Officer, DRI Healthcare Trust

Sure, sure. Just on concentration, that was something that we had assessed very deeply, Justin, and we certainly had specifically looked at competition for Orserdu in depth and have assumed significant competition, particularly in the tail from other orals. It's not just the IVs that are currently approved but future competition has been significantly built into our estimates. We are fully expecting competition from the likes of AstraZeneca's camizestrant or others, including Olema's product. But rest assured that that has been built into our expectations and therefore our valuation.

I just want to go back to your question about the pipeline and $3 billion versus our deployment target. Our pipeline, quite frankly, could be bigger than $3 billion if we wanted it to. We capped it at that because that's the amount—those are the assets near term that we're going to be going after or are looking to go after. But not all of them are ones—as we continue to do due diligence, some of them will fall out of our pipeline because we feel like after our first glance, they looked good but upon a deeper

look, they don't look quite as attractive. They move out, or conversely perhaps the counterparty has chosen someone else to work with or doesn't have the strategic need anymore.

Our pipeline always fluctuates, although the near term pipeline is pretty stable. But the point there being is that you can't necessarily look at the size of our pipeline relative to our deployment targets. We can make the pipeline as big as we want it to be, because quite frankly, the amount of deals that are incoming to us, as well as the ones that we are able to find ourselves, is significant. We are limiting that size right now, so that we can focus and not get too distracted with the various potential deals that are out there.

Justin Keywood – Analyst, Stifel

Thank you for the additional colour.

Operator

Thank you. The next question comes from David Martin from Bloom Burton. Please go ahead, your line is open.

David Martin – Analyst, Bloom Burton

Good morning. My first question is you mentioned an $18.5 million milestone that wasn't earned. Can that still be collected in future quarters, or was it time dependent?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

David, thanks for the question. That was actually an $18.5 million milestone that we would have had to pay, based on results. We did not have to pay it because the results were not achieved. It was sort of a one-and-done kind of thing. We don't have to—it wouldn't come due later if results changed.

David Martin – Analyst, Bloom Burton

Okay, great. You designate your pipeline the front end and the back end. Is that based on the time you've spent on the assets or the quality of the assets?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

That's based on when we anticipate deals may close. The front end of our pipeline is stuff that Navin and his team are working on in the near term, that we hope will close in the six to nine month period. Then the back end of our pipeline is our deals that are coming in after that.

David Martin – Analyst, Bloom Burton

Okay, thanks. My last question is most of your royalties have been negotiated for drugs that are commercial and, on the market, but I think you've done one or two where they're clinical stage. Are you reaching more for some clinical stage assets and maybe build triggers in that the deal will be active contingent on approval of the drugs, or is it still vast majority commercial products?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

I think our portfolio allocation is as it has been for a long time, is focused on commercial assets. Which is not to say that if we find an attractive asset that is near approval and we do our diligence and we have a lot of conviction it and everything else from a financial and qualitative characteristic perspective meets our criteria, we wouldn't do the transaction. I think the vast majority of our capital deployment is going to be geared towards commercial stage assets.

David Martin – Analyst, Bloom Burton

Okay, thanks. That's it for me.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thanks David.

Operator

Thank you. There are no further questions at this time. I will hand the call back to Mr. Khosrowshahi.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much everybody for your questions and for listening to our call. We really appreciate it and look forward to staying in touch. Thank you.

Operator

Thank you. This does conclude today's conference call. Thank you all for attending. You may now disconnect your lines.