FINAL TRANSCRIPT

DRI Capital Inc. – DRI Healthcare Trust

Q2 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Behzad Khosrowshahi
DRI Healthcare Trust — Chief Executive Officer

Chris Anastasopoulos
DRI Healthcare Trust — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Greg Fraser
Truist Securities — Analyst

Adam Buckham
Scotiabank — Analyst

PRESENTATION

Operator

Good morning everyone. Welcome to the DRI Healthcare Trust Second Quarter 2021 Results Conference Call.

Listeners are reminded that 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.

For additional material 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.

This earnings call presentation also makes reference to certain non-IFRS measures and industry metrics such as Adjusted EBITDA, Adjusted EBITDA margin, total cash royalties, cash earnings per unit, free cash flow and debt-to-EBITDA. These measures 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 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 financial performance from management perspective. Accordingly, these measures should not be considered in isolation, nor as a substitute for any analysis of financial information reported under IFRS.

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

I'd like to remind everyone that this conference call is being recorded today, Friday, August 6, 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. Good morning everybody and welcome. Thank you very much for taking the time this morning. We are very pleased to have this opportunity to discuss our second quarter results released last night which represent our first full quarter since going public in February.

Joining me today is Chris Anastasopoulos, our Chief Financial Officer.

On our call today, Chris will discuss our second quarter financial results, portfolio performance and balance sheet, and then I will comment on our growth strategy and our outlook. We will then take your questions.

Chris Anastasopoulos — Chief Financial Officer, DRI Healthcare Trust

Thanks Behzad, and good morning everyone.

In the second quarter we generated $23.4 million in royalty income and $7.3 million in net earnings for net earnings per unit of $0.18. The Trust continued to generate strong cash flow in the quarter. Our portfolio recognized total cash royalty received of $33.3 million and we recorded Adjusted EBITDA of $28.8 million. Our adjusted cash earnings per unit was $0.46.

As we've discussed before, the Trust has an efficient business model that provides exposure to pharmaceutical sales without the typical costs and risks associated with generating those sales. Our year-to-date results continue to demonstrate this efficiency.

Our operating expenses, management fees and servicer fees amounted to $7.1 million for the first six months of the year. Applying this to our pro forma total cash royalty received of $63.9 million for the year-to-date results in a pro forma Adjusted EBITDA of $56.8 million and a pro forma Adjusted EBITDA margin of 89 percent. In addition, for the year-to-date we generated $0.97 in adjusted cash earnings per unit.

On this slide, you can see a breakdown of our cash royalty fees by royalty assets for Q2 2021 compared to our pro forma results for Q2 2020.

There was a 5 percent increase in total cash royalty receipts in Q2 2021 compared to the pro forma amount for the previous year. This was primarily driven by a 19 percent increase in cash royalty receipts from our core products, primarily due to strong market demand for Rydapt, Zytiga and Eylea. This was partially offset by a 25 percent decline in cash royalty receipts from our mature products portfolio, and so it's not unexpected as it included the final cash royalty receipts from the (inaudible) portfolio and due to the continued expiration of royalty entitlements in certain geographies for some of the underlying products in the autoimmune portfolio.

Our legacy products portfolio also declined modestly as we continue to receive declining small amounts of royalties where (inaudible) are generally expired.

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

To summarize, our results continue to show that we have a robust business model supported by a strong balance sheet with an attractive portfolio of royalty assets and we are well positioned to continue to deliver value to our unitholders.

We are well capitalized to grow the portfolio. As at June 30 we had cash and cash equivalents of $145.7 million which consisted of $115.6 million of cash on hand available to support acquisitions and operations, and $30.1 million of funds held in trust. After the end of the quarter, following the principal and interest payment on the secured notes made on July 15, the remaining funds held in trust were released to cash on hand, adding to our available cash balance. This is further bolstered by $29.7 million in royalties (inaudible) in the upcoming periods.

On June 30, the net value of our royalty assets was $273.7 million. We also maintain a prudent approach to debt which at June 30 consisted of $59.2 million in secured notes. On July 15 we made a principal payment of $12.1 million from the funds held in trust, bringing the outstanding principal amount of the secured notes to $47.1 million.

Combining our cash on hand, the cash we generate each quarter and the potential to increase our leverage two to three times debt-to-EBITDA, we have significant resources to deploy in growing our portfolio.

Behzad will now provide some comments on our growth strategy and outlook.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thanks very much, Chris.

As Chris mentioned, we have a strong capital position alongside which we are hard at work at executing on our stated strategy to grow through two primary avenues. The first is through acquiring traditional royalties, the purchase of existing royalties on commercialized pharmaceutical products from individual inventors, academic and research institutions, and biotech and pharmaceutical companies. Second, we will look at creating synthetic royalty streams. These involve contracting directly with a product's marketer to receive a portion of its top line sales in exchange for cash that the marketer can use to launch the product or for other purposes.

In selective transactions, we may use our capital to secure traditional or synthetic royalty streams through providing debt or other financing to our counterparties as part of the overall transaction.

What will drive our growth is our track record, our expertise and our unique market focus. As managers of the Trust, DRI will continue to focus on the market segment where we have built distinct competitive advantages and a demonstrated track record over our 32-year history, transactions in the range of $25 million to $150 million. This is an attractive niche with high barriers to entry for potential competitors.

In this transaction range, our focus is on medically necessary products with high quality marketers. We look for products with strong growth potential that are protected by strong and long-lasting intellectual property rights.

Since 2006, we have made nearly $1.3 billion in acquisitions in this range and have the relationships and expertise to continue to be a leading investor in this segment of the market. Large cap public investors, institutional asset managers and pension plans typically focus on large transactions, emphasizing quantity over quality, which don't allow for the flexibility we have to create win-win solutions matching our mandate to make attractive acquisitions while also serving the near- and long-term objectives of our counterparties.

The Trust will benefit from the proven and repeatable asset identification and selection process that has driven our success to date. Our strategy leverages our significant database of over 6,500 royalties on 2,000 products that we have built over almost two decades. We can draw on this database as well as input from our industry relationships to generate systematic new deal flow.

I am confident in our success by taking this approach. We have extensive industry relationships and a systematic approach that has been built across the years, and from undertaking hundreds of evaluations. The experience represents a high barrier to entry for anyone desiring to enter our sector.

Before I close, I would like to reiterate our strategy and outlook. We seek to generate sustainable growing cash royalty receipts from a diversified asset portfolio, much as we have done throughout our history. Our existing assets continue to demonstrate strong performance. We remain on track with our target of making between $650 million and $750 million in royalty acquisitions over the next five years. We are well positioned to execute on this through our strong capital position and a robust pipeline of acquisition opportunities that we are continually advancing and growing.

On our last call we discussed a pipeline of eight opportunities. While we are not yet in a position to announce a transaction, we continue to advance those files along with two new ones, with three of these in the later stages of our process.

None of the potential deals in our pipeline have fallen away, although some have seen the normal type of delays that are common in transactions, particularly with the nature of our counterparties.

With that, we will now take your questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should 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.

Okay, your first question comes from Greg Fraser at Truist Securities. Greg, please go ahead.

Greg Fraser – Analyst, Truist Securities

Good morning folks and thanks for taking the questions.

First, can you give us a flavour for the size of the late stage deals that you're assessing, and if you were to get to the end on, I think you had mentioned three that are in the later stages, would you have to choose which one to complete or can you do multiple deals?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Greg, thanks very much for your question and thank you very much for taking the time for the call.

Our later stage deals that we have under exclusivity right now range from about $23 million in size to about $100 million in size. If we are in the position to close all three we will be able to execute on all three transactions.

Greg Fraser – Analyst, Truist Securities

Got it. That's very helpful.

In terms of competition, have you seen any changes in terms of competition for deals this year? I know you tend to focus on areas of the market where competition is lighter than for the much larger deals, and you've historically sourced a lot of deals on a proprietary basis, but I'm curious if you've noticed any changes on the competitive front more recently.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

We haven't noticed any sort of new entrants into the space or people exiting the space. The competitive environment hasn't shifted at all.

Greg Fraser – Analyst, Truist Securities

Got it, okay.

Then my last question is, I know your goal is to acquire assets that extend the weighted average duration of the portfolio. How rigid is that goal and would you consider a shorter-duration asset that came with a great return?

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

I think we're open to all sorts of opportunities. Our objective, you're right, is to extend the weighted average duration of the portfolio, which stands at about eight years right now. I think we'll see a mix of opportunities; some of them may be shorter, some of them will be longer, but ultimately we hope to be able to extend the duration.

Greg Fraser – Analyst, Truist Securities

Got it. Thank you very much.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

No problem.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star, followed by one.

Okay, there are no further questions at this time. I will turn it back to Behzad for closing remarks.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much everybody for joining the call. We really appreciate it and look forward to continuing to perform in the future. I hope everybody has a great weekend.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank…

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Sorry, Operator. It looks like there's one more question potentially on the call.

Operator

Okay. Yes, okay. We do have a question from Adam Buckham from Scotiabank. Adam, please go ahead.

Adam Buckham — Analyst, Scotiabank

Great. Thanks for taking my questions, guys.

I guess just a follow-up on the last questions regarding the pipeline. I was hoping to get an idea of sort of timelines related to when assets come into the pipeline and then when they actually get closed. If you think about the three sort of new—sorry, the two new ones that came into the pipeline in this quarter, generally how long would that take to close? I know there's a huge probably variance in that based on the person you're dealing with, but some colour around that likely could be helpful.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thanks very much for the question. It's a great question, and it is, you're absolutely right there is a lot of variance around it.

I think when we're dealing with biotechnology companies or pharmaceutical companies, they tend to move more quickly and close more quickly. Historically we've closed deals in as short a period of about six weeks, but typically I think they would take about two to three months when we're dealing with sort of corporate counterparties. When we're dealing with academic institutions they tend to take a little bit longer just because of the governance and sometimes the politics involved in those transactions, so I would say on average those tend to take about three or four months. Then the inventor deals are pretty varied. It depends on the use of proceeds. It depends on sort of how quickly the inventor wants to move and stuff like that. We've seen transactions with inventors take eight or nine months, and we've seen them take three months. It's just it's a pretty varied landscape when we're dealing with those counterparties.

Adam Buckham — Analyst, Scotiabank

Great. That's super helpful.

I guess just a follow-up and thinking about the academic institution channel. Something that was kind of talked about probably over the last year is just that the sort of decline in revenues that some of these institutions have seen as a result of COVID and the majority of students not being able to come into the country. Has there been any change in the channel there for discussions? Have you seen people look for funding and look to monetize assets? Any sort of update there would be helpful.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

I don’t think there’s been any change in that dynamic. I think in particular in North America as well as the U.K., what we’re seeing is that international students who are big revenue drivers for these schools are either not coming or deferring their admission into the school and we’re seeing a reasonably material shift to sort of more domestic or in the case of the U.S. in-state students, which is causing sort of a bit of a decline in revenue.

The other factors that we’re causing a decline in revenue, particularly in the U.S., were sort of clinical trials and clinical trials getting delayed. We’re seeing that sort of correct itself and clinical trials are for the most part getting back to normal, but there is obviously sort of a historical or a lagging revenue loss as a result of that.

Then third factor was in particular in the U.S. again revenues from NCAA sports and broadcast fees and stuff like that. I think that’s correcting itself as well, but there has been some damage done as a result of sort of cancellation of games and things like that over the course of the past year.

So, I think academic institutions are still sort of feeling the pinch as a result of COVID. I think the longer duration factor that will continue to impact academic institutions is a reduction in tax revenue or funding as a result of tax revenues, and we’re seeing some states suffering as a result of that and consequently the funding is going down a little bit, but that sort of trend I think will last for the next two to three years or so.

Adam Buckham — Analyst, Scotiabank

Great. That’s super helpful. Thanks again and congrats on the quarter.

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you very much.

Operator

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

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you everybody again. I hope everybody has a great weekend and look forward to speaking to you soon.

Operator

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