DRI Healthcare Trust

DRI Healthcare Trust 2023 Second Quarter Earnings Call

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PRESENTATION

Operator

Good morning everyone. Welcome to DRI Healthcare Trust's 2023 Second 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 they are made.

Today's presentation also references non-GAAP measures, including total cash receipts, normalized total cash receipts, total cash royalty receipts, 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 would like to remind everyone that this conference call is being recorded today, Tuesday August 15, 2023.

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

Behzad Khosrowshahi — Chief Executive Officer

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 Emmanuel Coeytaux, our Head of Strategy and Chief Operating Officer.

As you will hear from us today during the course of this presentation, we have had an active few months since we last reported to you. During this time, we posted strong quarterly financial results. We deployed $285 million into attractive new deals. We sold our Tzield royalty and we retired our loan to CTI BioPharma. We are now projecting mid-teen total income CAGR until the end of 2025, and low single digit total income CAGR until the end of 2030, and we completed a successful follow-on offering.

During the quarter we announced a special cash distribution of $20 million to unit holders. This amounted to a payment of $0.533 per unit in addition to our regular quarterly distributions of $0.075 per unit.

At the end of June, we acquired a royalty interest on the global sales of Orserdu for $85 million. Orserdu is an oral selective estrogen receptor degrader, and the only approved targeted therapy used in treating postmenopausal women and adult men with ESR1-mutated ER-positive HER2-negative metastatic breast cancer. The FDA approved Orserdu in January of this year, and it is currently under review by the European Medicines Agency.

In addition we sold our royalty on the sales of Tzield to Sanofi for $210 million, creating a significant immediate value for our unit holders in a transaction that generated a 2.1 times multiple on invested capital in less than two months. Moreover, on the closing of Sobi's acquisition of CTI BioPharma, our senior loan was repaid according to its terms, generating a further $54.8 million in cash flow. Both these transactions put significant capital at our disposal to redeploy into attractive assets, compounding returns for our investors.

We posted strong results for the second quarter of 2023. The trust portfolio generated $28.7 million in normalized total cash receipts, which takes out the impact of the Tzield royalty sale, and $28.1 million in total income, an increase of 13 percent and 32 percent respectively over the same period in 2022.

We earned $25.1 million in Adjusted EBITDA, a 17 percent increase over the same period in 2022, and reflecting an Adjusted EBITDA margin of 87 percent.

We delivered $0.40 in adjusted cash earnings per unit, and declared aggregate cash distributions of $0.608 per unit, including a special cash distribution from the Tzield sale.

Looking at the overall portfolio, we can see the breakdown of cash royalty receipts by asset for this quarter compared to the same quarter last year. Total cash royalty receipts increased by 13 percent compared to a year ago. This was primarily due to the additional royalties earned on Empaveli, Omidria, and Zejula, which were added to the portfolio after June 30, 2022, as well as increased cash royalty receipts from Vonjo, which launched in the first quarter of 2022 and only had minimal sales in the second quarter of 2022. This was partially offset by the expected step-down in the royalty rate for Eylea II, the decline in sales of Oracea due to a change in the sales mix of the product, and the expected decline in worldwide sales of Spinraza due to a maturing and stable market.

After the end of the quarter, we paid the special and regular dividends announced in the second quarter, and we announced our normal distribution of $0.075 per unit for unit holders of record on September 30.

In July, we completed our first follow-on offering with a syndicate of underwriters for gross proceeds of US$74.1 million, priced at US$8.03 per unit. We saw strong support from our existing investors, and we are pleased to welcome a number of new shareholders to the Trust.

In July and August we deployed nearly $200 million by purchasing a second royalty entitlement on Vonjo for $66 million and a second royalty entitlement on Orserdu for $130 million. As we will discuss in further detail, the immediate financial impact of these transactions is that our 2025 royalty income is

expected to grow at a mid-teens CAGR, and our 2030 royalty income is expected to grow at a low single digits CAGR.

While we are super excited by everything that our team accomplished for our unit holders, we very much look forward to what the next few years will bring for us. We will continue to use our 34-year track record of systematic data-driven sourcing and execution to capitalize on what we expect will be a generational growth opportunity in our industry. Our ability to execute with this backdrop will allow us to continue to enhance our portfolio and to generate uncorrelated and high-yielding returns for our investors.

Our flywheel will continue to leverage our exceptional team, disciplined capital allocation, proactive sourcing, and strong execution, to deliver value to our unit holders. DRI Healthcare has a seasoned management and investment team, with subject matter expertise and deep industry relationships that span geographies, indications, and therapeutic areas. Our investment professionals possess a unique skill set of scientific and finance experience, and most have advanced scientific or medical degrees.

Our disciplined capital allocation model, which is based on a set of investor criteria that we have developed and refined over more than 20 years, has generated 22 percent net return across three private equity funds before going public, a level of performance that we intend to replicate as a public company.

One of the reasons we can achieve these returns is 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 6,500 known or potential royalties on over 2000 individual therapeutics. Having evaluated thousands of potential transactions, we have the systems and experience to conduct exhaustive

and 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 are able to replicate. We will continue to press hard on these advantages as we grow the business for the future.

I will now turn it over to Emmanuel.

Emmanuel Coeytaux, Ph.D. — Executive Vice President, Strategy; Chief Operating Officer

Thank you Behzad.

The long-term growth of the pharmaceutical industry is providing us with many opportunities to acquire high-quality royalty assets. As Behzad mentioned, we are on the cusp of a generational industry growth. Over the past five years, we have seen tremendous growth in the biopharmas' clinical pipeline. The number of products being developed between Phase 1 trials and registration has increased nearly 60 percent over that time period. This pipeline is growing not only in quantity but also in quality and diversity, as a result of 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 treatment in their indication.

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, increasing complexity of modalities, and the request from regulators and payers for more extensive clinical and real world outcomes.

This trend in innovation, along with increased life expectancy and improved access in emerging markets, are ultimately expected to drive growth in worldwide medicine spending. It is forecast to grow to $2 trillion in 2027 from about $1.5 trillion in 2022.

Together, these trends make up a good (inaudible) outlook for the royalty financing sector, with a long-term opportunity for us to acquire attractive royalty streams from diverse sources.

Building on the increasing capital needs of the biotech industry, about two thirds of unprofitable biotech companies listed on the NASDAQ currently have less than two years of cash available to continue their development programs. These companies typically need to raise new funding to pursue their activities.

In an environment where capital markets remain slow and interest rates are high, these biotech companies have limited options to secure their next tranche of capital. As a result, they are turning increasingly towards royalty financing to support their operations.

In this context, and as royalty financing is now a core part of the capital strategy for biotech executive teams, we expect the growth trend we have seen in our sector over the past five years to continue for this year and beyond.

Our performance since IPO is another way to illustrate trend I just described, as we have been one of the most active players of our industry over the last two years. At the time of IPO, we said our target was to deploy between $650 million and $715 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 $69 million to be deployed to some potential milestones.

Because of our strong pace of deployment earlier this year, we have revised our deployment target upwards to $850 million to $900 million by the end of 2025, and we are well on our way to achieving that target.

After yesterday's Orserdu transaction announcement, we now anticipate mid-teens CAGR for our total income through 2025 and low single digits CAGR through 2030.

With our acquisitions since the IPO, we have extended the portfolio's duration to over ten years, in line with our target of 2025.

As of today, our portfolio consists of 25 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 time of the IPO.

The Orserdu II transaction, in particular, showcases our ability to deliver on all promises and execute on all business plans.

At the time of our recent follow-on offering, we told investors that we had a tremendous opportunity for further value creation, with a strong pipeline of opportunities in front of us. Less than four weeks later, we closed the Orserdu II transaction.

Now, I would like to provide more detail on our recent transactions. In June we purchased our first royalty interest on the global sales of Orserdu for $85 million. In August we purchased a second royalty interest on the global sales of Orserdu for $130 million up front and $10 million in even date milestone payments.

We can efficiently execute on this type of second royalty transactions, thanks to our royalty database, where we have mapped the royalty universe. In our database, we typically identify three to four royalty (inaudible) drugs which are held by biotech companies, academic institutions or inventors, as a result of their contributions during the development of the drug.

Initial physician feedback on Orserdu has been positive, with strong product updates, and we were excited to increase our exposure to this transformative and long-duration asset. Orserdu is the first and only approved targeted therapy used in treating postmenopausal women or adult men with ESR1-mutated ER+ HER2- metastatic breast cancer, who have experienced disease progression despite prior endocrine therapy. The FDA approved Orserdu in January, and it is currently under review by the European Medicines Agency.

The first Orserdu royalty entitles the Trust to mid single digit share of royalty, payable quarterly with a one-quarter lag, based on sales beginning on April 1, 2023. We are also entitled to receive both sales- and regulatory-based milestone payments.

The second Orserdu royalty entitles the Trust to an additional low to high single digit tiered royalty, payable quarterly with a one-quarter lag, based on sales beginning on July 1, 2023. Like the first Orserdu

deal, in addition to the royalty payments, we are entitled to receive milestone payments on the drug achieving certain sales thresholds.

The short payback period and the significant near-term cash flows on these investments will allow us to redeploy significant cash flows into new investments, which will allow us to further diversify our portfolio. The financial characteristics of these deals have also been enhanced by the drug's remarkable commercial launch, with 2023 sales now expected to reach at least $175 million.

The difference between our projected near-term royalty income CAGR at the end of June and our current near-term royalty income CAGR shows just how effective the Orserdu II deal is for the Trust.

As Behzad mentioned, 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 the indication. Since its approval, Vonjo has successfully addressed the unmet needs of cytopenic myelofibrosis patients and has grown faster than our initial expectations. We've made the milestone payment of $6.5 million last January when it reached a sales threshold. In light of this commercial success, Sobi acquired CTI in June of this year.

The new transaction entitles us to a tiered royalty on the worldwide sales of Vonjo in quarterly payments based on sales beginning April 1, 2023. Unlike the first Vonjo royalty, our entitlement is uncapped on worldwide sales. We expect to receive the first payment in Q3 2023. We are also entitled to receive up to $107.5 million in milestone payments.

In March we acquired a royalty on the sales of Tzield, a groundbreaking therapy approved for treating pre-symptomatic type one diabetes patients, for $100 million up front and up to $100 million in clinical and performance-based milestones. This is a breakthrough drug which will be life-changing for type one diabetes patients.

As Behzad mentioned, only five days after we had announced the purchase of the Tzield royalty, Sanofi announced an agreement to purchase the drug marketer. Sanofi then approached us about buying the royalty on Tzield, for which they paid $210 million. In addition, Sanofi is now obligated to make all milestone payments if they are achieved.

The proceeds from the Tzield sale were deployed in a special cash distribution of $20 million to unit holders in July, to pay down $146 million owing on our revolving credit facility, and to partially fund the acquisitions I previously mentioned.

The outsized return on the sales of Tzield triggered an $18.6 million performance fee payable to Trust managers. It was initially anticipated that performance fees would only become payable in the late 2020s, but this unique transaction accelerated the timing by meeting all conditions of the three-part test that determined payment of the performance fee.

The payment of the performance fee is structured such that it is only paid once values return to our unit holders, as illustrated by the $20 million distribution. Further performance fees are not expected in the near future.

Our pipeline is more robust than DRI has seen in decades, with an estimated $2.8 billion in opportunities. The deals we are looking at are all high-quality and meet or exceed our financial and (inaudible) investment criteria.

Our focus will remain on acquiring royalties on medically necessary products that have the potential to change and improve the health and quality of life for patients. We will also require these therapies to be marketed by industry-leading life science companies that can successfully launch and grow the treatment in their target markets.

We intend to acquire both therapies that benefit from solid and long-lasting intellectual property protection. This aligns with our target of a weighted average for (inaudible) duration of over 10 years.

Our near-term pipeline, which includes deals that could close within six months, holds 16 opportunities with a total potential value of $1.8 billion. These deals range from $75 million to $150 million and cover a diversified set of (inaudible). The back end of our pipeline holds 12 opportunities with a total potential value of $1 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 hard to access. Complicated grounds of due diligence is needed to understand each asset and to successfully execute a deal. We have not seen any new firm trying to enter the market currently over the recent months.

I will now ask Chris to discuss our financial performance in the second quarter.

Chris Anastasopoulos — Executive Vice President; Chief Financial Officer

Thank you Emmanuel.

As of June 30, we had cash and cash equivalents of $121.3 million, and $29.1 million of royalties receivable. We also received gross proceeds of $74.1 million from our at recent follow-on offering, and we had $168.2 million available from our current credit facilities. This clearly shows that we are well capitalized to act on the opportunities in the market outlined by Behzad and Emmanuel.

As we source opportunities to continue deployment in the growing royalty market, we are supported by a business model designed to deliver efficient and optimum unit-holder value. This model enables both regular and reliable distributions to unit holders and the reinvesting of cash flows from royalty proceeds into new assets. Reinvesting into 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. Over time, 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.

We continue to generate strong cash flow from our assets. For the 12-month period ended June 30, our normalized total cash receipts were $103.7 million, including total cash royalty received of $97.5 million, and interest and fee receipts of $9.5 million on the CTI loan.

Our operating expenses and management fees for the 12-month period ended June 30 totals $14 million, resulting in an Adjusted EBITDA of $89.7 million and an Adjusted EBITDA margin of 87 percent.

For the 12-month period ended June 30, we have generated $1.85 in adjusted cash earnings per unit.

I will now turn the call back over to Behzad.

Behzad Khosrowshahi — Chief Executive Officer

Thank you Chris.

In 2023 and beyond, we will remain focused on our three key priorities.

First, we will 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. We'll ensure that that continues.

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

Finally, this volume lets us pick the best transactions to deliver long-term accretive value for our unit holders. We will 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.

Q & A

Operator

Thank you sir. (Operator instructions)

Your first question will come from Les Sulewski at Truist Securities. Please go ahead.

Leszek Sulewski – Truist Securities

Good morning, thank you for taking my questions.

So first on the Orserdu, your first purchase was from Eisai, the second (inaudible) Radius. Are there other royalty holders of that asset that you can potentially access? If we look through your portfolio, are there similar opportunities to potentially double down on the royalties you currently own from a secondary holder? Then I have a follow-up.

Behzad Khosrowshahi – Chief Executive Officer

Les, thank you very much for the question, appreciate it, appreciate you joining the call today.

There's always opportunities for us to, as you say, double down on the royalty entitlement, as Emmanuel said, most of the drugs that are in our database have multiple royalties associated with them, and one of the things that we try to do, and have tried to do as an organization, is to leverage our expertise and diligence in a particular space, and try to apply it on new royalty acquisitions, both on the drug that we recently acquired, like the two Orserdu transactions, but also on competitors that we may also like.

So, competitors to the drug that we may also like. So there's often opportunities to do that, and we will obviously take advantage of them. In those kinds of situations we are in a compelling position from a competitive standpoint, given that we've completed our diligence, and so we provide a more compelling execution than others may.

Leszek Sulewski – Truist Securities

Great. That's helpful.

Now, my second question is regarding a potential capital. So what we've seen is the strains in biotech funding being somewhat eased as of late, and capital markets somewhat improving, I mean specifically in lending. Does that shift to a more favourable lending environment pose a risk to you, to your pipeline of opportunities, where potential asset owners might now be less inclined to go with a royalty sale, and perhaps one client on the lending deal? Thank you.

Behzad Khosrowshahi – Chief Executive Officer

No problem.

We haven't seen that. I mean, I think we're very much an equity investor and an asset purchaser, and that typically has a different kind of position in a company's capital structure and math that they do to raise the capital that they need. So, we think that we can sort of coexist with lenders in the space, and we have done so over many years, so we haven't seen any issue with additional lending. We haven't also seen a lot of additional lending in the space, and so I think the recovery in the market is, as I'm sure you know, fairly spotty and is going to be slow to come to fruition.

Leszek Sulewski – Truist Securities

Yes, it is crawling back. Thank you. Appreciate it.

Operator

Your next question will come from Scott Fletcher at CIBC. Please go ahead.

Scott Fletcher – CIBC Capital Markets

Hi, good morning. I'm wondering if we could get an update on the balance sheet and leverage post the Orserdu deal, and sort of what your capital capacity is, given the pipeline, sort of the low end of the pipeline is $75 million.

Behzad Khosrowshahi – Chief Executive Officer

Absolutely. Emmanuel, do you want to cover that?

Emmanuel Coeytaux, Ph.D. – Executive Vice President, Strategy; Chief Operating Officer

Sure.

So, as Chris was saying, end of June we were at $168 million. We funded the Orserdu transaction largely through that in addition to some cash we had on hand, so we still have significant deployment capacity post the Orserdu II transaction, over $100 million roughly.

Then what was the other part of your question, Scott, sorry?

Scott Fletcher – CIBC Capital Markets

No problem. Like, with the sort of low end of the pipeline being at $75 million, is there any desire to take leverage above the historical targets to keep capitalizing on the market?

Emmanuel Coeytaux, Ph.D. – Executive Vice President, Strategy; Chief Operating Officer

So, we are typically, as we said before, we're typically comfortable being at 3x leverage, and we are below that for now, and we can go above or if there is time, as you know we are (inaudible) some cash every quarter so we can quickly repay that debt and come back to 3x. But, we're still in line with what we communicated previously.

Scott Fletcher – CIBC Capital Markets

Okay. Thank you.

Operator

Your next question will come from Rahul Sarugaser at Raymond James. Please go ahead.

Rahul Sarugaser – Raymond James

Morning Behzad Emmanuel Chris, thanks so much for taking our questions and congrats on the operational (inaudible) on this quarter.

So, I guess my question is sort of leading on the first one and Emmanuel's update about doubling down on sort of Orserdu and of course Vonjo. So, how are you thinking about strategically the balance

between doubling down and diversification, particularly of the concentration risk. Of course we've seen, not that you are particularly heavily weighted in Syfovre, but there's obviously some question as to the future of that drug, so could you maybe just give us sort of a strategic view on how you balance diversification versus doubling down on (inaudible)?

Behzad Khosrowshahi – Chief Executive Officer

Absolutely, and Rahul, thank you very much for the time and for joining the call and for the question.

Diversification in the healthcare business is a little bit tricky, as you know, in the sense that you have to get fairly granular to really understand the diversification in a particular portfolio. To go back a few years, for example, we owned royalties on Remicade, Enbrel, and a number of other treatments in the autoimmune space, and we were comfortable with that, given the different markets that each of those drugs targeted and accessed.

In the case of Orserdu, we were comfortable with the diversity there, in particular because of the cash flow characteristics associated with that particular royalty stream. As you head from Emmanuel, we're now expecting about $175 million in sales from Orserdu in its first year. What this will allow us to do is to likely access the milestone payments that are due to us, and so you're going to see a fairly rapid, for lack of a better term, deleveraging on the Orserdu deal, which will be complemented by the acquisitions that we make in the future. So, the financial characteristics associated with those two deals made us comfortable with that particular transaction, and having some focus on that particular drug, in

addition to the fact that we like the drug a lot and we think that it's got a compelling value proposition for patients and in the market as well for the long term.

But, that's sort of how we think about it. But really our decisions around diversification are really at a very granular level and driven by a case-by-case analysis.

Rahul Sarugaser – Raymond James

All right, terrific, thanks for that. Appreciate that.

So, my second question is, now that you've updated your deployment guidance to 850 to 900, and then you talked about sort of the $2 billion pipeline, and the cadence of deals that you've been putting out recently has of course been quite rapid; so, doing the math between what you've spent already or deployed already and what your target is, is this model, a lot left. So, are you looking at potentially updating that guidance? How should we think about the balance between the pace and deployment and what your guidance is on deployment?

Behzad Khosrowshahi – Chief Executive Officer

Our pace of deployment has been rapid, as you said, and we're certainly super happy with that. We haven't focused on updating the guidance around the 850 to 900, but, as you say, you can do the math, and unless we take a long vacation it's probably going to beat that number. But, we will look at that number sort of towards the end of the year, or the early part of next year, and provide updated guidance to the investor community at that time.

Rahul Sarugaser – Raymond James

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

Behzad Khosrowshahi – Chief Executive Officer

Thank you.

Operator

Your next question will come from George Farmer at Scotiabank. Please go ahead.

George Farmer – Scotiabank

Hi, good morning, thanks for taking my question. Was wondering if you could confirm that you are entitled to royalties on pegcetacoplan for geographic atrophy, and maybe you could share your views on some of the latest developments regarding eye inflammation, and whether this is having any impact on your option to dive deeper into this opportunity? I believe you have that opportunity available to you?

Behzad Khosrowshahi – Chief Executive Officer

George, thank you for the question, I appreciate you taking the time.

We do have exposure, or we do get royalties on all the sales of pegcetacoplan in whatever form they come in, so we'll have both PNH-related royalties and geographic atrophy-related royalties. We've done two deals on these products to date. We had an option to purchase an additional royalty on our first deal, but that option expired in June, and we let it expire; we just had too many more attractive

opportunities to chase down, rather than spend another $20 million or so on this particular deal. So, we no longer have that option.

We underwrote our entitlements here, in large part focused on the PNH opportunity, when we did the first deal, PNH was the only approved indication, and so we were very much focused on that, we think that it's a compelling drug to treat PNH and it fits in with the treatment algorithm for that particular disease very well, and so we don't really see a downside for us related to geographic atrophy. In addition, our first royalty stream on these products is capped at a $500 million sales level, so we hadn't really banked on a lot of value being driven by the geographic atrophy indication. So, in short, we don't have a ton of exposure to the GA indication.

George Farmer – Scotiabank

Okay, that's really helpful.

Then, kind of on a higher level, you mentioned, as we're all quite aware, these smaller biotechs, which are in need of new avenues for capital. Most of them don't really have marketed products. So, how are you thinking about your spots? Are there really opportunities in this market of small biotechs that have any sort of attractive potential to you?

Behzad Khosrowshahi – Chief Executive Officer

Yes. I think you got to bifurcate the opportunities that we look at into sort of two buckets.

One is that we show up and we want to buy an existing royalty stream. So, you saw that in the deal that we did with Macrogenics back in March. Macrogenics doesn't have a marketed product, but they were eligible to receive royalties on what is now Sanofi's Tzield, and so we said okay, we'll pay you $100 million and we'll take that Tzield royalty. So a big chunk of our business, the majority of our business, is to buy these traditional royalties. That doesn't really hinge on whether a biotech company has a marketed product or not, a lot of these biotechs are, as you know, big R&D engines and they've delivered a lot of technology that is used in different drugs, and so we're able to acquire those kinds of royalties.

The second bucket of deals that we do are synthetic royalty deals, so this is a situation where the biotech needs to have a product on the market generating sales. This is a smaller component of our business, but still a material component of our business, but in that area we do look for biotechs with marketed products that we are interested in, as you're suggesting, that narrows down the universe a little bit, which is part of the reason that's a smaller component of our business, but that's how we look at sort of the biotech universe.

In addition to that, obviously, we do deals with universities, individual inventors, and, as you saw in the Eisai transaction, sometimes with larger pharmaceutical companies, so we have those verticals as well.

George Farmer – Scotiabank

Okay. Thanks Behzad.

Behzad Khosrowshahi – Chief Executive Officer

No problem.

Operator

Your next question will come from Doug Miehm at RBC Capital Markets. Please go ahead.

Douglas Miehm – RBC Capital Markets

Good morning, Behzad and everyone.

My question really has to do with the Orserdu, this drug appears to be turning into, and maybe you've thought this all along, but something even more exciting than anticipated. So, a couple things.

Number one, we know this is likely going to become a competitive environment, but can you talk about Menarini, if they're contemplating combo trials, what type of trials, and if in your view there's any chance that they'd also think about co-marketing agreements with much larger pharmaceutical companies that could help increase the market share of this drug, given its attractive characteristics, and maybe extend the tail on it as well?

Behzad Khosrowshahi – Chief Executive Officer

Doug, thanks very much for the question, appreciate it.

Orserdu is definitely turning into something more exciting. We had a lot of conviction around the product, when we did the Eisai transaction, and obviously that conviction maintained when we did the

second transaction. We believe that it's going to have a highly defensible position in the treatment algorithm for these forms of breast cancer, going forward. We've done a ton of analysis in this space, as you can imagine, and we think that Orserdu is certainly a compelling product. While we know that AstraZeneca has a couple different products under development, we think that there's some risk to those pipeline products, which will be to the benefit of Orserdu.

Menarini has a number of combo trials under way. I believe they have at least three combination trials under way. I know that one is with a CDK4-6 inhibitor, and there's a couple others, I can shoot you a list of that after this call, I don't have them off the top of my head, but they do have a number of combination trials under way, which would make sense and certainly is consistent with what other players have done or are doing in this space.

I can't speak, obviously, on behalf of Menarini about their co-marketing plans and things like that. Speculating just myself as someone who is involved in the pharmaceutical industry, I think that it would make sense for Menarini to co-market this drug with someone, particularly in markets like Japan and potentially even in the United States. Menarini is a very strong player in Europe and is developing a great strength in the United States, but certainly—we have seen situations where companies like Menarini have entered into co-marketing arrangements. Nothing in our underwriting of this transaction assumes any kind of co-marketing arrangement, and we're super comfortable with both the people that Menarini has put in place for its oncology franchise and its execution plans, but certainly I wouldn't be surprised to see a co-marketing kind of deal.

Douglas Miehm – RBC Capital Markets

Okay, and then just as a follow-up, now that you've sort of checked—well you have checked the box with respect to growth to 2025 and then even to 2030, with this latest deal; can you talk about whether or not your—how your looking at potential pipeline deals has changed now? Would you be willing to accept a little more risk for longer-duration assets, or has nothing really changed in how you're viewing the potential assets that you're going to acquire royalties on?

I'll leave it there.

Behzad Khosrowshahi – Chief Executive Officer

Thanks Doug.

We've always been fairly careful about the kinds of assets that we acquire. We've looked at the individual assets based on their own merits and drawn a conclusion on that, but we've also looked at them in the context of our portfolio and see where they fit in, and the kind of impact that they have on our portfolio. I think we'll continue to look at things that way as well. I think that that's sort of a—it's a good way to look at investments, generally speaking.

So, I don't think really anything has changed within our methodology. Obviously we look at our forward-looking expected cash flows and we want to make sure that we continue to extend those cash flows and continue to enhance the duration of our portfolio like we have been over the past couple of years, so we'll be focused on that. I'm not sure if we're going to take materially more risk; in the current

environment, we really don't need to take materially more risk to access the cash flow, so we're not particularly focused on that right this minute, but maybe down the road that's something we look at.

Douglas Miehm – RBC Capital Markets

Thank you.

Behzad Khosrowshahi – Chief Executive Officer

Thanks Doug.

Operator

Your next question will come from Endri Leno at National Bank. Please go ahead.

Endri Leno – National Bank of Canada

Hi, good morning. Thanks for taking my questions.

I just have some product-specific ones, but the first one if you can talk a bit about the Zejula and Zytiga combo that I think just got approved by the FDA, and how it would contribute to incremental royalties and how are you thinking about it.

Behzad Khosrowshahi – Chief Executive Officer

Absolutely. Our Zytiga entitlement is based on ex-U.S. sales of the product. So, despite the FDA approval, we're not going to see a lot of upside as a result of that. But to the extent that the combo drug

gets approved in the European Union or other markets outside the United States, then we would see additional royalties as a result of that. We haven't done a ton of analysis to see what the sales forecast on that particular combo looks like, but we're sort of looking into it now to see if and when it may get approved by European Medicines Agency and figuring out things on that basis.

Endri Leno – National Bank of Canada

Thanks for that. As a follow-up it's on Zejula you would be getting the royalties in the U.S.? Do you get on the molecule or on the drug?

Behzad Khosrowshahi – Chief Executive Officer

Oh sorry, were you asking about Zejula or Zytiga?

Endri Leno – National Bank of Canada

Both, both, because I think there was a combo that just got approved? Yes.

Behzad Khosrowshahi – Chief Executive Officer

On Zejula, we get worldwide royalties, so we would get royalties on the combination of Zejula with any other drug. I expect that Zejula, at a minimum, is going to be combined with (inaudible) for various indications, if not other drugs.

Endri Leno – National Bank of Canada

Great, thank you, and the other one I had was on Oracea. I mean, we talked about a new marketer coming in place and putting some changes. I was just wondering how you were thinking about it at this point, I mean in the context of Q3, or Q2 results rather.

Behzad Khosrowshahi – Chief Executive Officer

Galderma signed up a firm called Mayne Pharma, which is a big sort of branded generic marketer. I think Mayne Pharma came on board in February or March, and so they're getting their programs ramped up right now. I expect that we'll see the impact of—the sort of positive impact from the Mayne Pharma efforts starting in the second half of the year, for us, and indications are that they're going to do a better job than the previous branded generic marketer for Oracea.

Endri Leno – National Bank of Canada

Great. Thank you.

Operator

There are no further questions at this time, so I will turn the conference back to Behzad Khosrowshahi for any closing remarks.

Behzad Khosrowshahi – Chief Executive Officer

Thank you very much, Operator. Thank you very much, everybody, for joining the call, we appreciate you taking the time, and I hope everybody has a nice remainder to the summer. Take care.

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you all for participating, and ask you to please disconnect your lines.