DRI Healthcare Trust

2023 Fourth Quarter and Year-end Earnings Call

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PRESENTATION

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust's 2023 fourth quarter and year-end earnings call.

Listeners are reminded that certain statements made in this earnings call presentation, including responses to questions, may contain forward-looking statements within the meaning of the safe harbor 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, Thursday, February 29, 2024.

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

Behzad Khosrowshahi — Chief Executive Officer, DRI Healthcare Trust

Thank you, Operator, and good morning, everyone. Thank you for taking the time to join us today.

With me are Ali Hedayat, Board Trustee; Navin Jacob, our Chief Investment Officer; and Chris Anastasopoulos, our Chief Financial Officer.

In 2023, our team did a tremendous job executing against all aspects of our strategy. We acquired 5 royalties on 4 different drugs for $385 million. Since going public, we have invested $881 million in 12 royalty transactions.

At the same time, we raised $246 million and quickly deployed that capital into deals that offered unitholders materially greater returns than the cost of our capital.

And with the support of our banking syndicate, we expanded our credit facilities to $500 million.

Finally, through our regular distributions, special distributions, and unit buybacks, we returned almost $60 million in cash to our unitholders, plus we returned a further $43 million as unit distributions.

As Chris will discuss in further detail, we posted strong financial results for the year. We recorded $131.2 million in normalized total cash receipts, a 36 percent increase over 2022.

We recorded $166.3 million in total income, a 79 percent increase over 2022. And we recorded $113.2 million in adjusted EBITDA, a 37 percent increase over 2022.

This all translates to an adjusted EBITDA margin of 86 percent for the year.

Finally, we delivered $2.53 in basic adjusted cash earnings per unit and declared cash distributions of $1.10 per unit.

We continued creating value for unitholders after the quarter-end. We issued several new guidance targets, which we will discuss in more detail later in the presentation.

For the first time, we are issuing 2024 royalty income guidance of between $153 million and $155 million, excluding both milestone income and income from any new transactions.

We increased our capital deployment target to over $1.25 billion for the five years ending in 2025. This is an increase from our previously increased target of between $850 million to $900 million over that time period.

We increased both our mid and long-term royalty income CAGR guidance. We now anticipate high-teens royalty income CAGR through to 2025 and mid- to high-single-digit royalty income CAGR through to 2030.

Yesterday, we also announced an increase to our quarterly distributions to $0.085, representing a 13 percent increase, and declared a distribution for Q1 for unitholders of record on March 31, 2024.

The distribution was built to scale with the business, allowing unitholders to participate in and benefit from the growth of the trust.

Furthermore, we announced the expansion of our royalty stream on Omidria for $115 million up front and up to $55 million essential milestone payments.

We acquired the initial royalty stream on Omidria in October of 2022, and this amendment to the original deal gives us an uncapped exposure to a 30 percent royalty on all US sales of the drug.

This table shows the individual royalty receipts for the fourth quarter and full year of 2023 compared to the previous year.

We are pleased that total cash royalty receipts increased by 76 percent in Q4 2023 compared to Q4 2022 and by 41 percent year over year. This was primarily driven by royalties on the sales of Orserdu, Vonjo, and Xenpozyme, some of which we did not own in 2022.

During the quarter, we also received $15.4 million of milestone royalty cash receipts after Orserdu was approved by the EMA for sale in the European Union and after Orserdu achieved certain sales targets.

We also earned an additional $21 million in milestone royalty income in the fourth quarter of 2023 related to Orserdu achieving certain sales milestones for the year ended December 31, 2023. We expect to receive payments of this milestone in the first quarter of 2024.

This provides us with significant additional capital to redeploy into future accretive deals.

Our royalties on the sales of Sobi's Vonjo continue to perform well as the drug continues to be adopted by physicians and patients in the United States. Based on this performance, we earned $5 million in milestone royalty income for the year as part of our second Vonjo royalty transaction, which we received in the first quarter of 2024.

We continue to see strong performance from the other assets in our portfolio as well.

Omidria performed as expected in the quarter, reaching our royalty cap, which was substantially higher than in the previous year.

Zejula saw annual growth in cash royalty receipts of 25 percent for the quarter. The increase was driven by strong US sales performance and growth following the launch of the tablet formulation and improved patient experience. Several top-line data readouts are expected later this year, potentially leading to additional indications.

Empaveli/Syfovre saw annual growth of 435 percent as it continues its successful launch.

Spinraza had a solid performance with 14 percent increase in receipts. Its performance is consistent with Biogen's objective to return Spinraza to consistent growth.

Finally, Xolair saw year-over-year receipt growth of 6 percent driven by its strong performance as a treatment for chronic hives. Earlier this month, Xolair was approved as a treatment for an array of severe food allergies, making it the first medicine to reduce allergic reactions to multiple foods following an accidental exposure.

The expected contractual step-downs and expiries in our royalties on Eylea, Rydapt, Stelara, Simponi, Ilaris, and Zytiga partially offset these increases.

Looking forward, we remain incredibly excited about the prospects of our business. We will continue to use our industry-leading 35-year track record of systematic, data-driven sourcing and execution to capitalize on the 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 high-yielding and high-margin returns for our investors.

Our flywheel leverages our experienced team, disciplined capital allocation, proactive sourcing, and strong execution to deliver value for our unitholders. Our 2023 results demonstrate the positive impact of this flywheel.

As Navin will discuss, our seasoned team of investment professionals analyzed and executed on numerous deals in various stages of our pipeline.

We allocated capital to transactions that were all highly accretive for our unitholders, from the Tzield transaction to the second Orserdu deal to the second Omidria deal. We continue to expand and enhance our proprietary royalty database, which is an invaluable tool to find new and interesting royalty opportunities.

Finally, 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 we consider, allowing us to provide our counterparties with 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.

I will now turn the call over to Ali.

Ali Hedayat — Board Trustee, DRI Healthcare Trust

Thank you, Behzad. As we source opportunities to continue deployment in the growing royalty market, we have designed a business model to deliver efficient and optimum unitholder value.

This model enables both regular and reliable distributions to unitholders and the reinvestment of cash flow 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 very core of our business model.

The cash generated by these assets currently in the portfolio allows us to redeploy and to fund future acquisitions, growing the portfolio organically, and ultimately securing long-term returns for our unitholders. Over time, the intention is that the continued reinvestment compounds and leads to exponential growth.

Using the return profile illustrative of a typical deal based on our historical averages highlights this power of compounding. As we continue moving forward, we anticipate the organic portfolio will deliver value for our unitholders through this compounding mechanism. This approach has been very positive for our business, and for the last three years we have been one of the most active players in our industry.

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 $881 million in royalty transactions with up to $106 million further to be deployed in potential milestones.

Because of our strong pace of the deployment, at the beginning of this month we revised our deployment target upwards for the second time in one year to over $1.25 billion over the five years to 2025.

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 now anticipate high-teens royalty income CAGR through 2025, which is an increase versus our prior guidance of mid-teens.

In the long term, we expect mid- to high-single-digit CAGR through 2030, which is also increased versus our prior guidance of low-single digits. This guidance excludes any new transactions we may do.

Built into these growth numbers is our 2024 royalty income guidance, which we are excited to announce for the first time. Excluding milestone income and income from any new transactions, we anticipate royalty income of between $153 million and $155 million. This compares to 2023 royalty income of $117.5 million on a comparable basis after removing the impact of milestones. We have also extended the portfolio's duration to over 10 years in line with our target for 2025.

With last year's two equity offerings and the expansion of our credit facilities, we have sufficient deployment capacity to reach our goal and new targets with internal resources.

As of today, our portfolio consists of 26 royalty streams on 20 products. Since going public, we have completed 12 transactions. In just three years, we are already two years ahead of our initial five-year target as stated at the time of the IPO. This pace of execution has led to year-over-year growth and accretive value for our unitholders. We generated $2.53 of basic adjusted cash earnings per unit in 2023. This is an increase of 37 percent from 2021, our first year as a public company. This figure takes into consideration the 18.7 million additional units issued in our July and September 2023 equity offerings.

I will now turn the call over to Navin.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Thank you, Ali. Our pipeline is stronger than it's ever been with over $3.5 billion of potential opportunities. There are three fundamental drivers behind the growth in the royalty investing industry, and for DRI specifically, that means we have many opportunities to acquire high-quality royalty assets.

These drivers can be characterized as long-term, medium-term, and short-term tailwinds. Let me start with the long-term tailwinds.

We're in the early years of what is anticipated to be generational industry growth driven by the development of therapeutics that will improve the lives of patients worldwide.

The number of products developed between Phase 1 trials and registration has increased nearly 50 percent over the past five years. This pipeline is growing in quantity, quality, and diversity due to decades of scientific progress and innovation.

In 2023, the FDA approved 55 new drugs, nearly 50 percent more than the previous year and the highest number since 2018. 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 15 percent for the five years to 2028. This will be driven by the pace of innovation, the increasing complexity of modalities, and the request from regulators and payers 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 the worldwide medicine spending from $1.6 trillion in 2023 to $2.2 trillion in 2028.

Over the medium term, we see two different tailwinds driving the royalty financing industry. Over the next five years, the expected impact of loss of exclusivity from patent expiries or regulatory exclusivity expiring is estimated to be $192 billion.

As pharma companies face these impending patent cliffs and corresponding drop in revenue, many look to business development transactions to make up that shortfall. As a result of these transactions, new royalties are created that organically restocks our long-term pipeline.

Another medium-term tailwind is the increased awareness from biotech executives about royalty financing in order to fund their company's strategic and operational needs. These funding requirements range from R&D projects, launching new drugs or indications, and building new manufacturing facilities. Increasingly, CEOs and CFOs are seeing the value of royalties as a third tool beyond traditional equity or fixed-income tools for raising capital. This is highlighted on the graph on the

right, which shows the strong trend in royalty deals in aggregate, but also the strong trend in synthetic royalties.

DRI is uniquely positioned to take advantage of this growing trend, given our long 30-year history and our focus on creating unique solutions that meet our partners' needs.

The last trend is more short-term. In an environment where capital markets remain choppy and interest rates are high, many biotech companies have limited options to secure their next tranche of capital. Biotechs are increasingly looking at royalty financing to bolster their shrinking cash reserves.

Looking at Q3 2023, for example, biotechs could only raise $5.3 billion against a net loss of $13 billion. As a result, it's estimated that 43 percent of the NASDAQ-listed biotech companies have less than 12 months of cash available and only 27 percent have more than 24 months of cash. Royalty financing is proving to be a very attractive option to address these financing issues.

Taken all together, these short-term, medium-term, and long-term trends make for a very positive outlook for the royalty financing sector, with numerous opportunities for us to acquire attractive royalty streams from diverse sources.

As we engage with all the opportunities we see in the market, we apply a consistent approach. We take time to understand the needs of our counterparties and structure bespoke proprietary win-win solutions. No two deals are the same, and each is tailored to address both the immediate and long-term objectives of the royalty holders.

This approach characterized our recent expansion of our royalty on Omidria, a drug used in cataract surgery for intraocular lens replacement to maintain pupil dilation and reduce postoperative pain. It is an attractive non-opioid choice for physicians, which is important given the ongoing opioid epidemic

plaguing the United States. Furthermore, Omidria has been given separate payment status by CMS, which guarantees reimbursement through the end of 2027.

We purchased the original royalty on Omidria in October 2022 for $125 million that was structured with increasing caps on the royalties. Our second transaction on Omidria announced on February 1st was for $115 million up front, with up to $55 million in potential sales-based milestone payments.

This amended agreement removed the caps that were in place in the original Omidria transaction and replaces them with a 30 percent royalty on all US net sales, giving us more upside exposure to growing sales. Omidria is a mature product that has been on the market since 2015 and has a stable sales history with a predictable growth outlook, and as such provides the Trust with reliable cash flows through the end of the decade.

We continue to execute our strategy against a pipeline that is more robust than we've seen for decades with approximately $3.7 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 or improve health outcomes and quality of lives for our patients. We will also require these therapies to be marketed by biopharma companies that successfully launch and grow the treatments in their target markets. We intend to acquire therapies that benefit from solid and long-lasting intellectual property and/or regulatory protection. This aligns with our target of weighted average portfolio duration of over 10 years.

Our near-term pipeline, which includes deals that could close within six months, stands at nine opportunities with a total potential value of over $1.2 billion. These deals range from $45 million to $250

million and cover a diversified set of disease areas. The back end of our pipeline is comprised of 28 opportunities with a total potential value of over $2.5 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 complex to access and the complicated ground-up due diligence is needed to understand each asset and successfully execute a deal. Our expertise in clinical trial analysis, sales forecasting, legal diligence, and IP risk analysis is a unique combination of skill sets and creates a large moat. We have not seen any new firms try to enter the market over the recent months.

I will turn the presentation over to Chris.

Chris Anastasopoulos — Chief Financial Officer, DRI Healthcare Trust

Thank you, Navin. As at December 31, 2023, we had cash and cash equivalents of $62.8 million and $64.1 million of royalties receivable. Under our recently expanded credit facility, we had $219.3 million in available credit as at February 28, 2024. This continues to show that we are well capitalized to act on the attractive opportunities in the market outlined by Behzad, Ali, and Navin.

We continue to generate strong cash flow from our assets. For the year ended December 31, 2023, our normalized total cash receipts were $131.2 million, including total cash royalty receipts of $127.9 million and cash interest and other income of $3.3 million.

Our operating expenses and management fees in 2023 totalled $18 million, net of performance fees payable, resulting in an adjusted EBITDA of $113.2 million and an adjusted EBITDA margin of 86 percent.

I will now turn the call back over to Behzad.

Behzad Khosrowshahi

Thank you, Chris. Looking into 2024 and beyond, we will 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 35 years, and our team's skill at identifying and closing accretive transactions is vital to that success.

Next, we aim to continue to execute against our robust pipeline, the largest we've seen in the company's history. With the current marketings (phon) 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 to be peak performance in all aspects of our business and see multiple opportunities to deploy our capital. This volume lets us pick high-quality transactions that we believe will deliver long-term accretive value for our unitholders.

Finally, we continue to be a critical partner in advancing innovation in the life sciences sector by providing funding to parties across the value chain, creating win-win situations.

With that, we will now take 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 *, followed by the 1 on your touch-tone 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 *, followed by the 2.

If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Ash Verma with UBS. Please go ahead.

Ash Verma — UBS

Hey. Good morning. Thanks for taking our questions, and congrats on all the progress. I had two.

So first one, on the guidance for 2024, it seems pretty tight on the royalty, $153 million to $155 million. Can you talk about the dynamic there? And do you think like given where you are guiding, do you think there is potential for upside based on how the assets do for the remainder of the year? Is it more on the conservative side? Would just love to get your thoughts on that.

And then secondly, so, yeah, on Omidria as you double down on the asset, where do you think the expectations are for this product in terms of peak sales opportunity or some of the near-term milestones? It would be helpful to get some clarity on that.

Thanks.

Behzad Khosrowshahi

Ash, thanks very much for dialling in, and thank you very much for your questions.

I will first turn it over to Ali to talk a little bit about the guidance and then turn it over to Navin to talk about Omidria.

Ali Hedayat

So look, I think on the guidance the key elements to think about there, one is that this just includes the current perimeter of the assets we own without any additional transactions. And obviously, if you look at our business model over the course of the year, we certainly expect to complete some additional transactions. So that's probably one building block in thinking about how to frame that.

The second is that we are generally pretty conservative in how we underwrite our assets. And I think we try to sort of put that conservatism through the lens of our public disclosures as well. And I think our guidance reflects that stance to some extent.

And then lastly, I think there's probably additional events that could occur within the portfolio, whether that's new indications for a given drug, or potentially new markets for a given drug that we tend not to impute until they manifest.

So that's probably the way that I would frame it.

Navin Jacob

And then on Omidria, Ash, thanks for the question. Look, Omidria is an interesting asset. It is detail sensitive. So to the extent that Rayner focuses on the product and supports the product fully, there are certainly avenues of growth for that product.

With that said, look, it is a more mature asset relative to some of the other products that we've been bringing in over the past two years, such as Empaveli or Orserdu, which had just launched, as you know. Tzield, which had just launched. So it is at the later stage of its life cycle.

This is not a barn-burner in terms of growth. That doesn't mean it's not a good deal for us. It was a good deal for us, it was a good deal for Omeros. Omeros' stock has outperformed relative to BTK since we did the deal with them. And so it was a win-win solution for both of us.

From our perspective, what the Omidria deal provided us, and more importantly for our unitholders, is a consistency of cash flows through the end of the decade. And what that allows for us is to use those cash flows, those stable, predictable cash flows to go acquire assets that have longer tails that are more in line with something like a Tzield or a surrogate type of deal.

Ash Verma

Thank you.

Operator

Your next question comes from Justin Keywood with Stifel. Please go ahead.

Justin Keywood — Stifel

Good morning. Thank you for taking my call. Just on the potential milestones in 2024, are you able to give some colour on the total dollar value of what that could be? And any particular events to look out for?

And then also on the guidance for 2024, if you're able to detail how you expect that to contribute throughout the quarters and throughout the year?

Behzad Khosrowshahi

Justin, thanks very much for the questions. I'll turn it over to—well, let me answer your guidance question first before I turn it over to Navin.

It's not our intention to break down that guidance on a quarterly basis, at least not at this stage. So unfortunately, we can't give you a tonne of further clarity on that.

What I can say is that we're expecting a pattern of cash flows that is similar to what we have historically received. So we don't anticipate that the "seasonality" in our business will change materially relative to the past few years. So I think you can do the calculations from there.

I'll turn it over to Navin to talk a little bit about further milestones.

Navin Jacob

Sorry, and this is milestones on what specifically? I apologize. I didn't catch the question fully.

Justin Keywood

Well, the guidance is excluding any potential milestones received, which I interpret could be additional upside. So what could be that aggregate value in 2024? And what would be the potential events to trigger that?

Navin Jacob

Yeah. I mean, look, we have to be a little bit careful there. Right? Because there are multiple different potential milestones, the timing of which we have some assumptions on, but the precision of that timing, we're a conservative company, as you know, and so the precision is not exact. And so we're not going to comment on the total size, nor the timing very specifically. There's a reason why we gave that guidance. Also, furthermore, some of the milestone payments and the structures of the deals that we've done prevent us from disclosing.

And so this is not a question of us trying to hide anything. It's simply a function of the deals that we've done and the disclosure requirements that we have with the counterparties prevent us from providing a lot of details there. But needless to say, there are sources of upside this year.

Justin Keywood

Understood. And then just on the broader M&A landscape, I heard there's quite a robust funnel, and I believe it was increased from $3 billion to $3.7 billion. But just with some stabilizing interest rates potentially declining, are you seeing any potential changes around that in a more favourable capital environment for some of these biotech and bioscience companies?

Navin Jacob

Yeah. It's a good question. Look, the sector, as I've been talking to you guys, I've always been saying towards the back half of 2023 and first half of 2024 would it be possible that we see the equity capital markets favouring biotech? We are seeing a little bit of a rebound in the sector lately, particularly

going into J.P. Morgan and post-J.P. Morgan, as you alluded to, given some of the M&A that's been happening that's fuelling that and a couple of catalysts that have been happening are fuelling that.

But with that said, as I noted in my prepared remarks, we view the equity capital markets and the tailwind that it provides, or the weakness in the equity capital markets and the tailwinds that it provides us, as a short-term benefit. But there are multiple other trends that are occurring in the royalty investing industry. And I will repeat them.

The long-term trend, which is just the overall biopharma sector we believe will be extremely strong over the next two decades, given all the pace of innovation, the actual quality of innovation, the characterization of biology is increasing, and better regulation is also leading to significant increase in therapeutics that require significant funding. And so, and as part of that, when strategics create strategic partnerships with biotech companies, or academic institutions, royalties are created, and that naturally feeds our pipeline. That's the long-term trend.

The medium-term trend, which I think is completely misunderstood by investors, quite frankly, and the Street, and we've been slowly trying to make this argument, which is that, and quite frankly because we're seeing it happen, I'm seeing it happen real time with the inbound inquiries from companies. And that medium-term trend is that you have CEOs and CFOs starting to realize, okay, instead of raising capital from equity or from debt, there's this third leg of capital that can be utilized, which is royalty financing.

So even if equity does start to take off a little bit, there are for certain companies if the management team believes in the asset that they hold, or the several assets that they hold, okay, even if the stock goes up, they may have a long-term view that the stock is worth 4 or 5 times where the stock may be trading at. And if that's the case, then it doesn't matter if there's a short-term rally in the stock.

The long-term value destruction of reissuing equity is significant. And so selling a proportion of their asset to us, a small single-digit proportion of the asset to us, will in the long term be much more cost effective and a lower cost of capital relative to issuing equity.

And so, I think CEOs and CFOs—not I think. I know CEOs and CFOs are starting to recognize royalty investing as a validated means of raising capital that in some instances will be cheaper than equity, in some instances may be cheaper than debt, in some instances may be more expensive. But it is a new—or not new, but a relatively new way of financing their operating activities, or meeting their strategic needs.

Does that answer the question?

Justin Keywood

Yes. Very interesting. Thank you.

Operator

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

Doug Miehm — RBC

Yeah. Thank you. Good morning, everyone. First question, and there's a couple things going on here, but it has to do with concentration risk.

When you look at Orserdu, Omidria, Vonjo, we estimate that those represent more than 70 percent of your NAV, especially given how well Orserdu is apparently doing. And when we think about that guidance that you've given, how should we be thinking about the growth for these very important products and contribution to that guidance you've provided?

So number one, can you talk about how you view concentration risk, given our observations? And then perhaps you can discuss a little bit on how these three drugs are going to contribute to that 2024 outlook.

Behzad Khosrowshahi

Well, thanks very much for taking the time, and thanks very much for the question. I appreciate it.

Concentration risk to us is sort of a dynamic measure in the sense that we look at it all the time from several different perspectives. We look at, certainly, concentration based on the asset values that we own, but we also look at concentration based on therapeutic areas and indications and marketers and remaining life of assets and so on.

And so, generally speaking, we're comfortable with the portfolio, recognizing that as we continue to grow the business and as we continue to make acquisitions, our bigger concentrations are naturally going to get diluted over time.

Orserdu, Vonjo, Omidria are all big assets, and as Navin mentioned, they're growing at different paces and so we're happy with where they're at. And I think that on a revenue basis, their concentration is going to be fairly manageable in our portfolio.

And then, as I said, as we acquire other assets over time, that concentration, no matter the measurement, will get diluted.

Doug Miehm

Okay. Thank you for that. Perhaps you could maybe talk a little bit about Vonjo as well, given current market dynamics. And I think Sobi is going through a slight transition right now, having taken on the drug and in Q4 we saw the drug revenues decline.

But maybe you can add a little meat to what you see for the future of that product and as we go into '24 if they're going to figure things out.

Behzad Khosrowshahi

Navin, you want to take that one?

Navin Jacob

Sure. I mean, look, Sobi is a very sophisticated hematology player. They're not as well-known in the US perhaps, but they have been in the hem space for quite a while. They have a strong management team. I think they were pretty open in their Q4 call discussing some of the near-term challenges that they've had with regards to integration of CTI. So that takes time.

Now having said that, and then there's some dynamics in the marketplace that are happening, but when we talk to KOLs, when we look at the data, it is abundant again, quite frankly, just the guidelines alone, it's abundantly clear that Vonjo has significant advantages relative to other products in the severe thrombocytopenia population. And so … And there are opportunities beyond the label with other indications and moving up front, either as a stand-alone, but also potentially in combination. There are various other products being developed and new mechanisms being developed, such as BEP inhibitors.

You perhaps have seen some of the data from velaricib (phon) and other products and other mechanisms that are being developed. So combination strategy, I think, has potential upside for Vonjo relative to how we underwrote the deal. In the near term, though, certainly there is a little bit of, as I said, adjustment that has to occur as Sobi integrates CTI fully.

But the company was extremely confident in their outlook for the year and believe that it's going to be a very big product in their own words. And we have—we certainly also believe the same, that there's a significant upside here for Vonjo if they're able to execute.

Doug Miehm

Thank you.

Operator

Your next question comes from Rahul Sarugaser with Raymond James. Please go ahead.

Rahul Sarugaser — Raymond James

Good morning, Behzad, Ali, Navin, and Chris. Thanks so much for taking our questions. I just wanted to start with the pipeline.

How are you seeing the balance of direct versus synthetic royalties in the more advanced pipeline discussions that you're having? And how is this indicative of the opportunity landscape, particularly given Navin's comments about the tension between rates of new drug approvals, patent requests, and the calls that you're getting from CEOs and CFOs of looking to monetize their assets?

Behzad Khosrowshahi

Rahul, thanks very much for taking the time to join the call, and thank you very much for the question. I will turn it over to Navin to answer it.

Navin Jacob

Yeah. We're seeing an equal mix of traditional and synthetic opportunities. I think, as I suspect you perceived from some of my comments, the number of synthetic opportunities has increased a lot relative to the past year and a half. And so we do have a higher proportion of synthetics than we've ever seen before. And I think this is part of the medium-term trend that is not appreciated by the Street. And so it's not just the traditional royalty market, but this burgeoning synthetic royalty market that we fully look to take advantage of and help educate the market.

That's part of my job on day-to-day basis is when meeting with CFOs and CEOs is educating them as to what exactly a synthetic royalty looks like and how it works, what are the structures, what the contracts look like. This is all still in its nascency.

While synthetic royalties have existed, it is still a relatively novel way for most CEOs and CFOs, and many of them have never even heard of it. And so over the past one-and-a-half years, we've been educating the market—or rather the industry about it. And we'll continue to do so and we fully anticipate synthetic royalties to really be a mainstay for the industry as a means to fund their daily activities.

Rahul Sarugaser

Great, Navin. Thanks. Yeah. I think that's some really good insight into the opportunity set.

So my second question following on from this, it's clear that as part of the royalty structures you establish milestone payments based on potential outperformance of the drug, which of course benefits both DRI and the drug company.

So other than the recently double-down Orserdu and Vonjo deals, what assets should we be looking at as tracking positively towards triggering milestones?

Behzad Khosrowshahi

Go ahead, Navin.

Navin Jacob

In terms of milestone payments to us?

Rahul Sarugaser

Yes, please.

Navin Jacob

Look, as I said, we can't comment too much on that. We've discussed Orserdu as being a potential asset from which we gain milestones, Vonjo's a potential asset from which we can gain milestones. Beyond that, we can't get into too much details, unfortunately.

Rahul Sarugaser

Okay. It's worth asking the question. So thanks for taking our questions. I'll go back in the queue.

Navin Jacob

Yup.

Operator

Your next question comes from George Farmer with Scotiabank. Please go ahead.

George Farmer — Scotiabank

Hi. Good morning. Thanks for taking my questions. I think, Behzad, you mentioned that there were a number of deals that were coming as of your last call. And just certainly seeing the Omidria deal getting closed, wondering what the status is on some of these other ones, I think, which you had guided to be near term?

And then also regarding your guidance of $153 million to $155 million, and this is the first time you're giving it, that does seem pretty tight. Is there anything that we should think about that could maybe go wrong, or go in a different direction, maybe upward or downward, that could affect the tightness of that guidance?

Behzad Khosrowshahi

George, thank you very much, first of all, for taking the time to join the call. I will turn it over to Navin to talk about the pipeline and then Ali to talk about the guidance.

Navin Jacob

On the pipeline, George, and thanks for the question, I will say that most of the deals are medium term, but it is a strong set of assets and high-quality assets. These are complicated situations that we're trying to help these companies figure out, and we really pride ourselves in creating bespoke solutions for these companies. It's not just a template type of transaction.

And so it's not—I hesitate to characterize the timing of any of these deals as being near term, simply because it's potentially near term, but as we dig further, as we work with the companies, as they are learning about it and about how we work and how these deals work, they may have different requests that change the nature of the deal that we're constructing with them.

And so as you know, we're a conservative company, so we don't like to give guidance that we're going to miss on anything. And so I would just say that the timing is medium term.

Ali Hedayat

I think on the guidance question, just to reiterate Navin's prior point, I think what you see baked into that is a combination of what's intrinsically a very high visibility business model for us, but also our conservatism and underwriting, which feeds through the guidance numbers that we gave you and the sales forecasts from which those guidance numbers are derived.

I certainly think when you look at the past 12 months, the performance of our portfolio has been broadly better than our underwriting models. And we hope that that will continue to be the case, but it's certainly not something that we either guide towards or impute in the way that we think about our returns. So that's, I would say, something we try to leave on the table for our investors, both relative to our guidance and relative to our underwriting returns.

George Farmer

Okay. Great. And maybe one more to that end, just looking at some of the new results with Xolair and food allergy. Are you thinking about further upside potential of that in your portfolio? I mean, it's been relatively flat over the past few years. How are you thinking about that one?

Behzad Khosrowshahi

George, thanks for the question. Xolair is one of my favorite deals because it was one of the first deals that I worked on back in 2005, so it has a special place in my heart.

Look, it is certainly groundbreaking, as I'm sure you know, that a drug like Xolair would be approved for the treatment of multiple food allergies. And I would tell you that the people responsible for marketing Xolair, whether it was Genentech back in the day or Roche later on, were always trying to figure out a structure for a clinical trial that would provide them with success in peanut allergy and other kinds of indications. So it's heartening that they've been able to eventually figure that out.

I mean, we sort of take a wait-and-see approach on this in the sense—

George Farmer

Mm-hmm.

Behzad Khosrowshahi

—that it's hard to predict if this is going to be a meaningful difference or not. So I'd rather take a look at it in six or nine months' time and see how it's doing and then make a prediction on that basis.

George Farmer

Mm-hmm. All right. Great. Thanks very much.

Operator

Your next question comes from Scott Fletcher with CIBC. Please—

Scott Fletcher — CIBC

Hi. Good morning. I wanted to ask a question on Orserdu. Earlier in the year you'd mentioned that you had expected the drug to hit I think it was $175 million in sales in the year. Can you comment on just whether it hit that? Or exceeded those targets? And maybe as much as you can share what your hopes or expectations are for growth on the drug going forward in, I guess, '24?

Behzad Khosrowshahi

Scott, thanks very much for the question. I'll turn it over to Navin for that.

Navin Jacob

Yeah. Scott, thanks for the question. It well exceeded the $175 million. And that's a function of the underlying demand and need for in the ESR1 mutation-positive patients. And also I think from our perspective, perhaps a greater than anticipated proportion of patients that have ESR1 mutations relative to how we underwrote the deal. And so … And then thirdly, the strength of the Menarini marketing team. And so those three things have led to strong outperformance on the asset.

We're not going to give individual product guidance at this stage for 2024, but needless to say, we are excited about the prospects for the product.

Scott Fletcher

Okay. Thanks. And then just a quick question on the sales milestones. Obviously you hit a bunch in Q4 here. Are they typically structured that they will be triggered in Q4 as an annual sales target? Or is that just an anomaly?

Navin Jacob

No. No. It depends, Scott. Some are triggered intra-year. Right? So it could be on a trailing. It's based on a year-to-date number. Whatever the threshold is, it could be hit during the years. Some milestones are hit only after annual sales are reported. It really depends on a case-by-case basis,

depending on how the licence agreement that we are effectively acquiring has been written. In this case with Orserdu, it is intra-year.

Scott Fletcher

Okay. Thanks. That's helpful.

Operator

Your next question comes from Zachary Evershed with National Bank Financial. Please go ahead.

Nate Po — National Bank Financial

Good morning, guys. This is Nate calling in for Zach. Thanks for taking my question.

Behzad Khosrowshahi

Hi, Nate. How are you?

Nate Po

Do you feel the increase in the prevalence of synthetic royalties, does it meaningfully change your risk profile?

Behzad Khosrowshahi

Nate, I appreciate the question. Look, I don't think it—the presence of synthetic royalties meaningfully changes our risk profile in the sense that we apply the same investment criteria to synthetic royalties with some modification as we do to a regular royalty stream. So we're still looking for some of the same characteristics that Navin described earlier on in our prepared remarks for every deal. So we are not taking materially more risk because of a synthetic.

Nate Po

Gotcha. Thanks. And with $881 million deployed to date, $220 million rough of available credit, you have approximately $350 million left to deploy over the next two years to hit your 2025 guidance.

Could you give any colour surrounding how much you are looking to fund internally versus going for debt or equity?

Behzad Khosrowshahi

The $1.25 billion guidance that we gave is entirely internally funded. It is funded through really sort of three sources, you know, cash on hand right now; cash that we're going to generate from our assets as time goes on, and you saw based on our results this past quarter that's fairly significant; as well as our credit capacity. And the thing that you should bear in mind is that as the company grows, the credit facility will grow without increasing our leverage ratios in any way. So that $1.25 billion target is entirely internally and organically funded.

Nate Po

And if you have confidence in your capacity to reach $1.25 billion in deployments all internally, just observing your history of raising deployment guidance, especially recently, are you being as conservative as you were when giving prior guidance?

Behzad Khosrowshahi

Yes. I think like as you have heard from Navi and Ali, we take a lot of time on guidance, on the work that we do. We certainly do not want to give frivolous guidance or certainly aggressive guidance. We just don't think that that's the right thing to do for people.

Right now we've deployed $880 million. We have another $100 million in milestones that could go out the door, so call it almost $1 billion deployed. And we have basically a full year of 2024 and a full year of 2025 to deploy $250 million to get to our guidance number. And if you just extrapolate what we've done over the past three years, you'll see why we're comfortable that we're going to get there.

Nate Po

Thank you. And just one last one. Regarding Xolair, are there any future opportunities to continue investing in that similar to how you've doubled down on Omidria?

Behzad Khosrowshahi

Xolair is a fairly peculiar royalty stream in the sense that we collect royalties based on a contract as opposed to based on intellectual property. Xolair's patents have pretty much all lapsed, and so there is no additional opportunities that we know of to invest in Xolair, but it wouldn't really meet our investment criteria at this stage either.

Nate Po

Thanks. I'll turn it over.

Behzad Khosrowshahi

Thanks very much.

Operator

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

Behzad Khosrowshahi

Thank you very much, everybody, for taking the time to join our call. We very much appreciate it and look forward to chatting with you in the near future.

Thank you.

Operator

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

We thank you for participating and ask that you please disconnect your line.