DRI Healthcare Trust

2024 Fourth Quarter and Full Year Earnings Call

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PRESENTATION

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust 2024 Fourth Quarter and Full Year Earnings Call.

Listeners are reminded that certain statements made in this earnings call presentation, including responses to questions, may contain forward-looking statements within the meaning of the Safe Harbour provisions of Canadian provincial securities laws. Forward-looking statements involves 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 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. Reconciliations of these measures to measures recognised under IFRS are included in our earnings press release, available on our website and on SEDAR plus.

Unless otherwise specified, all dollar amounts discussed today are in U.S. dollars.

I want to remind everyone that this conference call is being recorded today, Tuesday, March 4, 2025. The Trust's quarterly results, press release and the slides of today's call will be available on the Investor page of the Trust's website at drihealthcare.com.

I would now like to introduce Mr. Gary Collins, Chairman and Chief Executive Officer of DRI.

Gary Collins — Chairman, 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 Amit Kapur, Chief Financial Officer of the Trust; Ali Hedayat, Board Trustee and Acting Chief Executive Officer of our Manager, DRI Capital, which we refer to as DRI Healthcare; and Navin Jacob, Chief Investment Officer of our Manager.

I will begin the call by highlighting our significant accomplishments and financial results for the past year. Then Navin will speak about our portfolio assets and the outlook for 2025. Next, Amit will discuss our key financial highlights and compare our results to the guidance we outlined at the beginning of last year. Finally, Ali will provide details of our updated guidance figures and strategic priorities before moving on to questions and answers.

We are very pleased with the pace of capital deployment achieved in the last year. We completed four transactions on a diverse set of assets. These investments totaled $457 million in committed capital, of which $290 million was upfront investment. We anticipate further deployment related to these transactions based on achieving certain milestone payments. These investments, which Navin will talk about in detail, showcase the continued evolution of the Trust and our investment strategy. They

encapsulate new structures and mechanisms that make our offering more attractive to counterparties and ultimately deliver more accretive value to our unit holders.

Second, we took a deep dive into our governance programme and made significant changes to both our personnel and our processes and controls. Amit and I, as the CFO and CEO respectively, are employees of the Trust, completely independent of the Manager. However, we work side-by-side with Ali, Navin, and the rest of the team at DRI Healthcare, and it is Amit's job and my job to ensure that all decisions are made for the benefits of our unit holders.

The material weaknesses noted in our second quarterly filing have been remediated. It's important that we address this quickly and effectively, and we've done that. We've also taken strong steps to further bolster our internal control environment and will continue to drive continuous improvements in risk management practices.

Next, we improved our cost of capital and set the foundation for our next phase of growth. In April, we refinanced our preferred securities. This simplified the mezzanine tier of our capital structure and reduced potential dilution by retiring 4.6 million net units in warrants from the original 2023 preferred securities financing.

In November, we expanded our credit facilities from $500 million to $632 million while also securing more favourable pricing terms. With over $300 million of available capital, we're well-positioned to continue executing on our strategy, identifying and adding strategic and accretive assets to our portfolio over the coming years.

Finally, we returned $24.4 million to our unit holders through unit purchases under our NCIV and our quarterly cash and special year-end distributions. Yesterday, we also declared an increased quarterly distribution of $0.10 for unit holders of record on March 31, which we paid on April 18, 2025.

We posted strong financial results for the year. We recorded $190 million in normalized total cash receipts, a 45 percent increase over the previous year. We recorded $187.5 million in total income, a 13 percent increase over 2023.We recorded $156.6 million in Adjusted EBITDA, a 37 percent increase over 2023. All of these metrics are the highest levels achieved by the Trust since its IPO in 2021. The larger increases in cash receipts and Adjusted EBITDA compared to the increase in total income are mainly driven by the outsized impacts of the sales base or certain milestones achieved in 2023, as previously reported. All $33.7 million of the milestones was recorded in income in the fourth quarter of 2023, but $21 million was received in the first quarter of 2024, directly contributing to cash receipts and Adjusted EBITDA. Our Adjusted EBITDA margin for the year was 82 percent.

Finally, we delivered $2.18 in basic adjusted cash earnings per unit and declared cash distributions of $0.34 per unit.

I'll now turn the call over to Navin Jacob, our Chief Investment Officer of the Manager, DRI Healthcare.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Thank you, Gary. Each of the four deals we completed in 2024 brings its own unique benefit to our growing portfolio. In February, we expanded on our previous deal for Omidria, which we purchased from

Omeros Corporation. In exchange for $115 million up front and up to $55 million in potential sales base milestones, we removed the annual royalty caps that were in place from the first transaction and purchased the entirety of the Omeros entitlement. We now receive a 30 percent royalty on the U.S. net sales of Omidria through December 31, 2031. This deal was immediately created with Omidria accounting for 20 percent of total royalty receipts in 2024. We believe this asset will continue to be a significant contributor through the rest of the decade.

In June, we acquired a second royalty on Xenpozyme. Xenpozyme is the only approved drug to treat the thousands of patients worldwide who suffer from ASMD, an extremely rare progressive genetic disease. We deployed $13.25 million up front and could pay up to $32.5 million in potential sales base milestones.

In October, we deployed $57 million for a portion of Editas' payment rights under the license to Vertex of the Cas9 gene-editing technology for Casgevy. Acquiring specific payment rights in this deal rather than a pure royalty was a first for the trust and shows the evolution of our investment strategy. The structure and nature of this deal will provide us with consistent cash flows and potential upside, all with limited risk, thus strengthening the stability of the entire portfolio.

Finally, in November, we acquired our first pre-approval royalty on Sebetralstat. Creating a synthetic royalty transaction directly with the developer and marketer allowed for a deeper level of diligence than would have been possible with a traditional royalty acquisition. This diligence confirmed our investment thesis with high conviction. We invested $100 million up front in the royalty transaction, plus a $5 million equity investment in KalVista Pharmaceuticals. We crafted a bespoke win-win solution

that provided KalVista with adequate capital while recognizing the value of Sebetralstat and provided DRI with significant upside potential and certain risk protections. Sebetralstat has an FDA PDUFA date scheduled for June, and if approved, we anticipate that the length of the cash flows would materially extend the overall duration of our portfolio. Overall, we are pleased not only with the quantum of capital deployed, but also with the range of deal structures, quality of assets, diversification of therapeutic areas, and strong partners that we added to our portfolio this year.

Regarding our existing portfolio performance, the table on Slide 9 shows the individual royalty receipts for the fourth quarter and full years of 2024 compared to the same periods in the previous year. Our portfolio performed well in the quarter with total royalty receipts increasing by 49 percent from the previous year. The 15 percent decrease from the fourth quarter of 2023 is due to one-time sales and regulatory-based Orserdu milestones totaling $15.4 million that we received in the previous period. Excluding those milestones, normal royalty receipts would have increased by 21 percent.

The increase in year-over-year total cash royalty receipts was primarily driven by royalties on the sales of Orserdu, Vonjo, and Empaveli, as well as the expansion of the Omidria royalty. Casgevy and Sebetralstat were not included here as they were acquired in the fourth quarter and did not contribute cash royalty receipts in 2024.

Empaveli/Syfovre continued their solid performance and is tracking in line with our expectations. The $500 million sales cap on Empaveli 1 was reached in the third quarter. As a reminder, Empaveli 2 does not have a cap, but that royalty represents only a fractional percentage of our total Empaveli/Syfovre

entitlement. There were some fluctuations in the timing of the payment collections in 2024, but these have now largely been resolved, and we anticipate a smoother payment schedule in future quarters.

Eylea royalties decreased by 10 percent over the prior year as anticipated. Regeneron, the marketer of Eylea, has engaged in multiple patent litigation cases. At the end of January, the U.S. District Court issued permanent or preliminary injunctions against four companies from launching bi-similar versions of Eylea based on a key patent set to expire in June 2027.

In a separate lawsuit, the same court denied Regeneron's request for a preliminary injunction against Amgen, which launched its biosimilar at risk. The appellate court heard Regeneron's appeal in January, and a decision should be announced in the coming months.

Given the large step-down in royalty rates for Eylea over the past two years, Eylea now contributes only a minimal level of royalties that will continue trending downwards until the expiry in the first quarter of 2027. Any adverse outcome from this litigation will not have a meaningful impact on our cash flows.

Omidria royalty receipts increased 190 percent from the previous year with the expansion of our entitlement. Sales declined by low single digits in 2024 compared to the previous year, mainly due to the merit based incentive payments, or MIPS score, released by CMS to physicians in the second quarter. These scores determine the CMS reimbursement amount that physicians receive based on the quality and cost-adjusted services they provide, which affects usage patterns.

In the coming years, we expect to see gradual return to low single-digit growth driven by the relaunch of Omidria in the HOPD setting, as separate reimbursement has been reinstated for 2025.

Overall, Omidria is performing in line with our expectations and is expected to generate cash flows through expiry in 2031.

Oracea royalty receipts decreased by 11 percent from the prior year. We were co-plaintiffs with Galderma, the marketer of Oracea, in litigation relating to generic entry. In December, the Federal Circuit ruled on the plaintiff's appeal and affirmed non-infringement in favour of the defendant's, allowing Lupin and other generics to stay on the market and additional generics to enter the market. These events led us to a full reforecasting of the cash flows from this asset, triggering an impairment charge of $9.7 million. We believe that this outlook on Oracea incorporates all known facts, and we do not anticipate any further impairments going forward. A reduction in cash flows on a go-forward basis has been incorporated into our 2025 revenue guidance.

Orserdu royalties increased by 146 percent in 2024. The 40 percent decrease in the fourth quarter compared to the previous year is solely a function of $15.4 million of milestones received in 2023. Orserdu continues to benefit from strong sales, performing ahead of our initial expectations. In December of 2024, a certain positive event occurred, which triggered the payment of a $10 milestone to Radius as part of the Orserdu II deal. As a result, certain royalty deductions have been exempted, and we have recognised a total of $15.7 million from previous royalties and milestones, plus an incremental $2.5 million in Q4 2024, which we now expect to receive in the first quarter of 2025.

These exemptions will apply on a go-forward basis, and we anticipate this leading to a meaningful lift in the effective Orserdu royalty rate, and consequently, royalty receipts. DRI is a conservative company,

and given numerous competitive products in development, we continue to expect 2025 to be the peak year of sales for Orserdu.

Spinraza receipts decline 12 percent year-over-year, which aligns with our expectations. Regulatory filings for higher-dose Spinraza have been accepted by both the FDA and the EMA, and the FDA PDUFA date is scheduled for September 22. Biogen noted that it's developing a more convenient delivery system for Spinraza in the form of an injection port that connects to the spinal column, and it will be placed under the skin. This has been received very positively by patients and could be available as early as 2026.

Vonjo royalties grew 27 percent from the prior year, partly from the addition of the second Vonjo royalty. Vonjo sales have shown continued momentum, as sales climbed 6 percent over the previous quarter. Sobi now has seen three quarterly sales increases in a row. Sobi continues advancing its growth strategy and adding more resources behind Vonjo. They plan to expand into international markets as early as this year. Sobi also has multiple additional indications currently in development, including VEXAS syndrome and CMML, which represents upside versus our expectations.

Xenpozyme royalties grew 119 percent from the preceding year. Note that this figure does not include royalties related to Xenpozyme II, as we expect to receive the first royalty payment from that transaction in the second quarter of this year. Overall, Xenpozyme sales continue to show consistent growth, largely in line with our expectations, driven by an increased number of patients being identified for appropriate treatment across all geographies.

Xolair royalties increased 7 percent from the prior year. Roche saw sales increase by 29 percent year-over-year for the fourth quarter. They've seen a strong food allergy launch with 40,000 patients on treatment since February, and further growth has been driven by strong CSU performance. Roche expects the sales growth momentum to continue in 2025, with year-over-year growth in the mid-teens.

Zejula's royalty receipts grew by 25 percent from the previous year. Sales grew by double-digit percentages for the full year, with strong growth delivered across all regions, with sustained increases in patient demand and higher volumes, further enhanced by positive price impacts in the U.S. Zejula had positive Phase 3 data readouts for first-line maintenance ovarian cancer in the fourth quarter. The trial met its primary endpoint of progression-free survival, but the key secondary endpoint of overall survival did not meet statistical significance. If Zejula is approved for the indication by the end of 2025, we will make a $10 million milestone payment to AnaptysBio.

Expected contractual step-downs in expiries in our royalties on Eylea, Rydapt, and Stelara, Simponi, and Ilaris partially offset the increases we have seen in our portfolio. As these assets near their expiries, we expect to see minor volatility, generic entry with subsequent market erosion, and potentially even litigation, as we've seen recently with Eylea and Rydapt. These events occur in the normal course as a drug reaches the end of its patent life, and we build all these assumptions into our underwriting models.

The health of the biotech sector is directly correlated to interest rates. Macro uncertainty, including tariffs and other geopolitical tensions, is causing the Fed to be cautious in lowering rates. These pressures continue to elevate the benefits of royalty financing over funding alternatives. When rates eventually normalize, they will certainly remain at the elevated levels compared to the biotech equity

market peaks of 2020 and 2021 when rates were below 1 percent. These tailwinds are contributing to the growing royalty market, with royalty financing now seen as the third leg of a biotech funding stool, along with debt and equity.

We have put ourselves in a position to succeed and capitalise on this growth by creating win-win deals for our counterparties that generate value for our unit holders. Biotech see us as the partner of choice for funding innovative drug development and commercialization based on the success achieved by our counterparties. This creates a positive feedback loop, leading to an increase in inbound opportunities as we continue executing on high-quality deals.

Over the three years that I've been with DRI Healthcare, there has been a noticeable increase in both the quality and quantity of deals that we see. Our pipeline remains strong to start the year, with well over $3 billion in potential opportunities. This represents the aggregate value of potential opportunities under active evaluation by our investment team that meet or exceed our qualitative and quantitative investment criteria. We remain committed to acquiring royalties on products that have the potential to transform patient care and enhance quality of life. Our focus is on therapies backed by strong marketers and durable intellectual property or regulatory protections, aligning with our target of a weighted average portfolio duration of over 10 years.

I will now turn the call over to Amit Kapur, CFO of the Trust.

Amit Kapur — Chief Financial Officer, DRI Healthcare Trust

Thank you, Navin. We continue to generate strong cash flow from our assets. In 2024, we recorded royalty income of $184.7 million, plus the change in fair value of financial royalty asset, namely Casgevy, and other interest income for total income of $187.5 million. After adjusting for receivables and the net change in financial royalty asset, we achieved normalized total cash receipts of $190 million.

Our operating expenses, management fees, and performance fees totaled $33.4 million net of performance fees payable, resulting in Adjusted EBITDA of $156.6 million and an Adjusted EBITDA margin of 82 percent. There are two contributing factors to this margin being lower than in previous years. First, in the third quarter, we incurred additional one-time legal and investigation-related costs. Second, due to the accounting treatment of Casgevy as a financial royalty asset and not an intangible royalty asset, we had to expense deal costs rather than capitalise them as we usually do. We also generated adjusted cash earnings per unit of $2.18.

Moving to Slide 13. As of December 31, we had $36.5 million of cash and cash equivalents. We also had $62.4 million of royalties' receivables and $302.9 million of credit availability from our bank facilities. We are well-capitalised to act on the attractive opportunities we're seeing in the market that Navin outlined earlier.

Moving to Slide 14. In February last year, we announced our first-ever annual royalty income guidance. We guided to a range of between $153 million and $155 million for 2024, excluding milestone income and income from any new transactions. This definition of income from royalty assets allows for year-over-year comparability by excluding one-time items. We ultimately generated $165.6 million of recurring income from royalty assets, 7.5 percent higher than the midpoint of our guidance.

Outperformance came from Orserdu, Zytiga, Xolair, and Eylea. Zytiga, Xolair, and Eylea are good examples of which these mature assets have conservative underwriting allows for upside performance in the out years.

On top of that, we earned $18.2 million of one-time income from royalty assets. This includes the $15.7 million from the reversal of Orserdu deductions from previous quarters, plus $2.5 million of exemptions relating to the fourth quarter. We also realized $1.4 million of income from the Xenpozyme II and Casgevy deals. Because of its treatment as a financial asset, we cannot record the entirety of the cash flow from Casgevy as income like we do with other royalties. Only the change in its fair value is recorded as income, and it is broken out as a separate line item on our financial statements.

In total, we generated $185.2 million of total royalty income, which was 20.3 percent higher than the midpoint of our guidance.

I will now turn the call over to Ali Hedayat, Acting CEO of DRI Healthcare.

Ali Hedayat — Interim Chief Executive Officer, DRI Healthcare Trust

Thank you, Amit. Over the past year, we executed on several great asset acquisitions, and we also made important improvements to our team, culture, portfolio, and strategy. Now it is time to look forward to our next phase of growth, and I'm pleased to announce our updated guidance figures for 2025.

We are on pace to achieve our capital deployment target, $1.25 billion, by the end of 2025. We have already deployed $1.07 billion and have committed to a further $207 million in potential milestone

and auction payments. We remain confident that we will hit that target later this year, and we will provide a further update once we cross that threshold.

Our 2025 income from royalty assets guidance of $172 million to $182 million represents a significant step up from the prior year. We continue to see our portfolio grow and newer assets move up their sales ramp curve. Consistent with last year, this figure excludes one-time income, such as milestones, as well as income from any new deals. For longer-term CAGR guidance, we have moved from a range of mid to high single-digit growth to expectations of high single-digit growth through 2030. The base year for this growth remains 2022, and again, this figure excludes the impact of any new transactions or one-time payments.

Thinking about puts and takes with regards to guidance over the coming years, we continue to see strong outperformance from a number of our legacy assets like Xolaire and Spinraza, as well as a continued benefit from the ramp of some of our earlier stage assets. As Navin mentioned, we are conscious of the peak sales of Orserdu coming this year. It has been a great asset for us and outperformed our underwriting to date, but it does create some drag looking forward that we need to fill in.

Our key priorities remain unchanged, and our focus is our long-term performance. First, our top priority is to continue rebuilding trust in our business. We have made significant strides by remediating our material weaknesses, and we will keep building back confidence as the year progresses. We continue to review every aspect of our governance programme that will unlock value for all stakeholders, and we are working diligently and transparently to ensure our efforts lead to long-term stability and growth.

To that end, and in response to feedback from many of our unit holders, we are increasing our quarterly distribution to $0.10 per quarter from the first quarter of 2025 forward. As part of our usual review of capital allocation priorities, including returning capital to our unit holders, the trust may look to reintroduce a normal course issuer bid over the course of 2025. We will continue to monitor our priorities and market conditions, and we'll update the market if and when we decide to proceed.

Second, we will continue to invest in our people and build an industry-leading team. Retaining top talent and attracting new expertise is critical to our success. We have hired key roles over recent months who have already made meaningful contributions to our business. Our team's ability to source and execute innovative and accretive transactions is a key driver for our growth. I'm confident that we'll continue to deepen our talent pool on our investment team and across the organization.

Our targeted investments in technology are also increasing our efficiency and enhancing our deal sourcing and execution capabilities. The AI capabilities that we have built in-house have already started to impact our throughput and broaden the range of opportunities in our pipeline.

Next, we remain focused on executing our proven strategy backed by one of the largest deal pipelines in the Company's history and our recently expanded credit availability. The demand for innovative treatments continues to grow despite current market challenges for biotech. We have made meaningful strides since our IPO and are well-positioned to continue capitalising on the strong deal flow ahead and to be a partner to this growing industry.

Finally, we are committed to being a key partner in driving life sciences innovation. By providing this critical funding across the value chain, we aim to create bespoke, win-win solutions that will advance innovation and generate value for all of our stakeholders.

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 the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by the two. 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 Doug Miehm with RBC Capital Markets. Your line is now open.

Douglas Miehm — Analyst, RBC Capital Markets

Yes, good morning, everyone. I have two questions. Number one, we've noted at the beginning of the year a fairly significant change in one of your larger competitors, but they did internalize their external manager. I'm just wondering how you're thinking about that move. What it means for your own business. I recognize that your company is at a different stage of development and certainly size as well, but just curious about that. The second question just has to do with, as for Amit and the Adjusted EBITDA margin,

given what we did observe in 2024 in terms of some extra costs, would you expect that 82 percent to move towards more historical levels again as we get into 2025? I'll leave it there. Thank you.

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

Thanks, Doug. It's Gary here. We obviously saw the Royalty Pharma internalization and we have been doing a lot of work internally to evaluate that. We've progressed along that path quite substantially. It's not an uncomplicated process, but I will say we've been working at evaluating that and putting in place the various steps that would be required to do that. In that vein, we've advanced material towards an agreement with the Manager. We will continue to work towards that. As I said, it's quite a complicated process, but we will update you when we get to the end of that path, should we get right there.

Amit Kapur — Chief Financial Officer, DRI Healthcare Trust

Doug, on the second half of your question—thank you for that—we did experience an elevated level of costs in Q3 and Q4 related to the investigation costs. We do expect that to tail off as we conclude Q1 and move into Q2. We do expect that margin to start to get back to more historical trends.

Douglas Miehm — Analyst, RBC Capital Markets

Great. Thank you very much.

Operator

Your next question comes from Les Sulewski with Truist. Your line is now open.

Leszek Sulewski — Analyst, Truist Securities

Good morning. Thank you for taking my questions. Navin, perhaps I'll start with you. Any thoughts on the latest special stock data update and any impact to internal outlook from your initial assessment? Then how do you see the competition evolving for Provera's potential threat given their dual indication for prevention and on-demand treatment? Then second, any thoughts around Bluebird's new ownership? Does their restructuring potential have any change to your initial outlook for Casgevy? Then, lastly, just a bigger question overall, any updates on the internal hires? Do you have the right size for the team and has the appetite increased or slowed down for additional deals as the year kicks off? Thank you.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Okay. First, on Sebetralstat, the data that was presented at the end of the year was very interesting and continues to bolster our thesis on Sebetralstat. It doesn't change our thesis; it just increases our confidence around it. What was important is that any of the presentations that have been coming out with regards to Provera, for example, that you mentioned, or any other competitor in the prophylactic setting, is well within our assumptions for the prophylaxis market and any consequential impact to the acute treatment market, which, again, remember, Sebetralstat is being developed—or rather has been developed for the acute setting.

As far as regarding Provera's asset and how it could impact the treatment market, it is being developed for both prophylaxis and the treatment market. Again, that was part of our base case assumption when we acquired the royalty on Sebetralstat. There's nothing really new to report on the competition from our perspective and our underwriting of the asset.

With regards to Casgevy and Bluebird and the acquisition of Bluebird, or the LBO of Bluebird really, again, if anything, it is a positive because there's going to be obviously some disruption as the Company transitions to being a private equity entity. That's not something that we're necessarily hoping for or anticipating, but it may be something that happens. If that does happen, that will go towards the benefit of Casgevy. But again, it's too hard to say what that impact is. As you know, with the Casgevy entitlement that we bought, what was interesting about that particular deal is that we get an annual license fee that is not tied to sales, so that provides a minimum return for unit holders, which is very interesting and good cash flows for the Trust to leverage off of. But then on top of that, we do get a sales-based fee, where, as we said before, we were conservative in our underwriting there. We anticipate we will start earning those fees in the back half of the decade, and we're not anticipating that in the near term.

Les, I'm sorry, I forgot the third question that you asked.

Leszek Sulewski — Analyst, Truist Securities

Yes, thank you for the colour so far. But yes, just on the right size being on the internal hires and the slower or the speeding up of appetite for additional deals.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

On the deal front, it's very easy. We are extremely hungry, and the team continues to work extremely hard. In fact, we were in exclusivity with another party at the beginning of this year, and only a couple of weeks away from closing a deal. Unfortunately, for reasons that had nothing to do with DRI or the asset that we were going after, the other party had to pull out of the deal for reasons again that were

very unique to the Company and again had nothing to do with DRI or the asset. It was just some internal matter that they had to deal with. But the point there being, the team was working extremely hard over the holidays to get that deal together. It's unfortunate that it fell apart, but it does showcase that we continue to move very aggressively towards deploying capital towards high-quality assets with good returns for unit holders.

On the team front, we continue to build the team. We added a member to our investment team, research team, someone with a PhD background, that we're very excited for her to join the team. As always, we continue to look out for high-quality talent that's going to add value to unit holders.

Ali Hedayat — Interim Chief Executive Officer, DRI Healthcare Trust

Hi, guys. It's Ali Hedayat here. I'm just going to jump in. For whatever reason, the Operators had me on mute until now. I just wanted to clarify a little bit around Doug's earlier question on internalization or potential internalization. We have been pretty transparent about how we've been working through this over the past months. I think when we spoke about it initially, we highlighted a number of areas that were an impediment that we needed to work through. The first of those and the biggest gating factor was really tax. I think at this point, in conjunction with our advisors, we have come to the outline of a structure that resolves the tax issues. I would take that problem as substantially resolved at this juncture.

The second one, obviously, is the outline of an agreement with the Manager. That works across a number of vectors, valuation, structure, assumption of certain liabilities, and the like. I would say there, we are also basically at a point of substantial completion. We've reached a pretty good understanding between us on those various issues and are working to finalize that. We have also been having

independent third parties have a look at it and I think are coming at a very favourable agreement for unit holders. When you compare the things that we're talking about on that front to the Royalty Pharma transaction, this compares pretty favourably to that.

The third thing was really thinking through the impact of profitability and what was the right timing for internalization. I think we feel pretty good about where we're at on that point. I don't think the internalization will meaningfully impact margins in the near term and will be accretive over the long term. I think in terms of getting our heads around the timing and margin impact of that, I think we find ourselves in a pretty good place.

Really, the remaining issues that we're spending a lot of time working through right now other than finalizing the prior ones is a question of the final governance and the actual mechanics of the transaction and various entities and things of that nature that we need to set up. That's a pretty transparent look at how this is working its way through the structure right now.

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

All right, it’s Gary. I think corollary to that too is the inevitable question that's going to come up around the NCIB and we spoke to that a little bit in the press release. Our intention is to activate that again. Obviously, given the internalization process that we're going through, we have advice that there will be an appropriate time where we can do that and we'll take that advice, but it's certainly our intention to be active and certainly at these prices.

Operator

Your next question comes from Scott Fletcher with CIBC. Your line is now open.

Scott Fletcher — Analyst, CIBC Capital Markets

Hi, good morning. Lots of good detail there on the internalization front. I wanted to ask just the last two deals have been different and you mentioned unique and bespoke structures. Looking forward, is a continued appetite to look at that or are you more willing to take a look at some of the more standard approach to the deals that you've done historically?

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

We're pretty omnivorous. Sorry, I'll let Navin take the detailed thing, but I would say we're pretty omnivorous in terms of the different structures we're looking at. I do think it's a key competitive factor for us to innovate and structure. When you look at what Navin and the team have done there, both on the Casgevy deal and I think in terms of hitting a risk-return balance on pre-approval with the Sebetralstat deal, I think that really pushes the envelope on optimizing returns and giving us the broadest range of transactions to access. Certainly, the intent is not to back away from that, but we're going to balance that, I would say, from a portfolio perspective with traditional deals as well.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

That's exactly right. There is no template approach that DRI takes. In fact, it's quite the opposite. We approach every single deal with a blank sheet of paper and try to build solutions that are specific for our counterparties. That is the hallmark of what DRI does. It's highly bespoke. It's hard to answer that question simply because every single deal is different. It depends on what the counterparty needs, what

DRI needs at the time, whether it's long-dated cash flows, short-term cash flows, a therapeutic area. It really depends deal to deal. What will be consistent is a good return with a low risk so that we create significant value for unit holders in the long term.

Scott Fletcher — Analyst, CIBC Capital Markets

Okay, thanks. Then on the Oracea further impairment in the quarter, obviously not the outcome that anyone was hoping for. I'm just wondering if there's any takeaways or learning from that deal and how that applies either to the current portfolio or as you're looking forward.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yes, that's a fair question. I have to admit it was before my time, but I think one of the key learnings from Oracea is that you have to be very careful with 505(b)(2) products that have the potential for authorized generics to enter the market. You can have knock-on implications to your gross to net that are very hard to forecast. I would say that's one of the key takeaways from Oracea, which is why we tend to stay away from those products. We will occasionally do one if we have a very clear line of sight for generic entry, as was the case with Omidria, but we've had opportunities to take down deals and 505(b)(2) type products that looked very interesting on surface, could appear to have good returns, but we passed on that because the tail of those type of royalty entitlements were very challenging for us to forecast because we didn't know what gross to net was. Part of that came from the learning of Oracea as well as general experience in this space.

Scott Fletcher — Analyst, CIBC Capital Markets

Okay, thank you. I appreciate it.

Operator

Your next question comes from Michael Freeman with Raymond James. Your line is now open.

Michael Freeman — Analyst, Raymond James

Gary, Amit, Ali, Navin, congratulations on a really strong year and a really solid recovery for you guys. My first question is on this activity around Orserdu II transaction. I wonder if you could provide any further colour on the pre-specified events that triggered the $10 million payment and then, of course, the nuance around the gross to net deductions that were exempted. If you could talk a bit about that structure. Also, you mentioned in the press release that, or in your filings, that the exemption from these deductions will apply at similar rates to future royalties and milestones. I wonder if you could just share as much as you can about this.

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

Yes, I'll jump in there to just clarify one thing and I'll let Navin answer the rest of it. I think one thing that I want to make clear here is the milestone is a payment out, but then we have a significant payment in as well. The net of those two numbers is a positive number. Essentially, the way to think about this is we put the $10 million milestone out related to the removal of those deductions and we received a back payment essentially for the deductions in two parts. One was a two and change million one that we received essentially the absence of a deduction on the fourth quarter royalties, and then we received a backdated return of payments that sums up to about $15.6 million or $15.7 million which just hit our bank

accounts I think last week. Essentially, if you will, the milestone is associated with a net receipt of money of something in the region of $5.6 million plus the absence of the deduction on the backward-looking payments. On a go-forward basis, we will receive the payments 100 percent gross at this point instead of having any deductions associated with them.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Just to be clear, this again speaks to the bespoke nature of what we do. With the Orserdu II and Radius, we created this very specific trigger that allowed us to de-risk some of these deductions that we were not entirely sure whether we could get rid of them or not, but we did which is a positive for unit holders. We paid Radius a milestone payment and we got some backdated payments associated with that, but most importantly, on a go-forward basis, our effective net royalty for Orserdu II and RADIUS will go up by roughly 100 basis points to 150 basis points. Just think of the net royalty rate that we get on Orserdu II increasing by roughly 100 basis points to 150 basis points.

Michael Freeman — Analyst, Raymond James

Okay. This is helpful. You mentioned 2025 as likely the peak year for Orserdu in 2025. The royalty rate you're going to be receiving on these peak sales will be even higher than it was in the past years?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Correct. By roughly 100 basis points to 150 basis points and that'll be true for every year going forward. Regardless of what the sales level is, we will get roughly 100 basis points to 150 basis points

higher royalty rate than we had at the time of underwriting this deal. This deal is looking even better than we had hoped for.

Michael Freeman — Analyst, Raymond James

That's sensational. Okay. Thanks very much for that colour. Now the next question is on Vonjo. There are a couple of milestones outlined in the deal. I wonder if you could describe probabilities of receiving these, potential timing, and a reminder of the specific amounts would be great.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yes. We can't comment on the triggers for additional milestones related to Vonjo. There are potential milestones to be collected over the next few years, but those details we have not shared. We've talked about in totality what those numbers are, and we can get back to you on that offline, but we're not going to get into the details and triggers of what may hit those milestones.

Michael Freeman — Analyst, Raymond James

Yes. That's fair. Instead, maybe you can discuss the details of the pipeline. You've given colour on a stage of maturity of discussions in your pipeline before. I wonder if you have any of that information available to us now.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

It's a little fluid, to be honest, because of this one deal that we were very close on. It was quite a large deal and complicated. It's unfortunate that it fell apart, but again, we were in exclusivity. It fell apart

not because of the asset or because of DRI. The company was very interested in DRI. They're still interested in DRI, and it's possible that it could come back, but they had to deal with some internal matters that had nothing to do with the asset, so they had to put things on pause. But because of that, that was our key late-stage deal, obviously, on being in exclusivity. It was literally three weeks away from closing. It would have been closing right around now, actually. There's potential for that to come back, but I'm not going to hold my breath for that.

We do have quite a few deals in the medium-stage term. The first half of the year is always a little bit slower than the second half because coming out of JPMorgan, most companies are, as they were last year, excited for potential M&A and wait with bated breath for an equity capital market run. They tend to look to the equity markets, particularly in the first quarter, more so than to royalty investing for their funding needs. But the pipeline is strong. I would just characterize it as more medium-stage than late-stage, given this one deal has unfortunately fallen apart. Regardless, we are an aggressive company with regards to pushing forward towards deals and scanning the entire landscape for potential deals. We're continuously meeting with companies where the sourcing team is right now at various conferences, talking to various different partners, and we're excited for the second half of the year.

Michael Freeman — Analyst, Raymond James

Okay. Thank you very much. I'll pass it on.

Operator

Your next question comes from David Martin with Bloom Burton. Your line is now open.

David Martin — Analyst, Bloom Burton

Hi. Good morning. Orserdu is not approved in combination with CDK inhibitors. Some of the competing oral SERDS have this combo in Phase 3. Menarini has some small combo studies running. I'm wondering, is it common nonetheless for doctors currently to prescribe Orserdu in combination with CDK inhibitors, and does Menarini have any larger trials planned for the combination?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yes. With regards to current use of Orserdu in combination with CDK4/6, David, our estimate is that roughly 5 percent to 10 percent of patients taking Orserdu right now are doing so in combination with CDK4/6, so there is some off-label usage of it. It could be as big as 10 percent, but that's probably on the higher end. I think what's very intriguing is that the data that we've seen thus far from all the various different players, whether it's immunoestrogens, or venous, or most recently…

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

Xenoestrogens.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Sorry. Yes, that's right. Xenoestrogens from SERENA-6. All of those combination trials and how they've played out are exactly how we anticipated them to play out per our underwriting. SERENA-6, we had modelled SERENA-6 to be positive, and we had over 60 percent probability of success on that particular trial. SERENA-4 is going to be a little bit more challenging to hit. It's possible that it does hit, and

we have modelled that on a risk-adjusted basis, but SERENA-4 really is in the first-line setting. If it does hit, it'll shrink the second-line setting, which is exactly what we have modelled. Nothing that is playing out thus far is outside of our expectations. The immunoestrogen data looks, at best, the same as Orserdu. One can argue that the Orserdu data are better and, quite frankly, are safer, and that's been the feedback that we've had from most of the KOLs that we've spoken to. With regards to immunoestrogens in combination with CDK4/6, let's see if it gets approved. There are a lot of questions on whether that was the right trial design that Lilly ran for immunoestrogens, because they're not really showing contribution of components, which is important to ODAC and the Oncology Division of the FDA.

But regardless, we are a conservative company as you know, which is why we have 2025 as being peak, but it's certainly possible that 2025 is not the peak. But that's not how we have underwritten the drug, and that's not how we're guiding. We continue to be very conservative, and if it's not, well, then that's a significant upside relative to our expectations.

David Martin — Analyst, Bloom Burton

Thank you. Shifting gears, the function that's funded by the management fees and the Trust's own deal investigation and research expenses, do those functions overlap, and would some of that disappear if you internalize the Manager?

Ali Hedayat — Interim Chief Executive Officer, DRI Healthcare Trust

Yes, it's Ali here. I think the way to think about that is there are some overlapping costs, primarily in senior management functions between the Trust and the Manager, and those are not a huge number,

but not irrelevant. Obviously, over time, those would get streamlined down to a single line item, so that would help. There are some corporate overhead and other things of that nature, which would also get streamlined. I think there's a, I would say, non-zero, but not enormously impactful cost savings impact. I think my comment on margins in the earlier part of the call was more focused on balancing the size of the trust revenue pool with the overhead expenses of the Manager at a point in time. If we had done this, let's say, two years ago, when the Manager was sized for growth relative to the asset pool of the Trust, it would have been a drag on margins. I think at this point, we're at a moment in time where the impact on margins will be neutral to slightly positive. That's really the way to think about it.

David Martin — Analyst, Bloom Burton

Okay. Thanks.

Operator

Your next question comes from Ash Verma with UBS. Your line is now open.

Ashwani Verma — Analyst, UBS

Great. Thanks for squeezing me in. Just one quick question for me. As you look at the different deals that you are following through the pipeline, just overall, I wanted to understand what does the sourcing funnel look like at the top? Like how many deals did you start with, maybe, to begin, let's say, in 2024? What through the different steps of that, how many did you end up with? Just want to understand how selective you are in terms of consuming the deals that you're looking at. Thanks.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yes. I'd have to go back to see what it was at the beginning of 2024. I can't give you an exact answer on that. I'll have to go back and check that, Ash. But what I'll say is that, look, our conversion rate, roughly, from the time we do, I won't say at the top. After we get past our first screens and we're doing what I call early stage, our bird's-eye view analyses, where there's hundreds of assets we're looking at in a given year, our conversion rate from that second level to completing a deal is roughly 7 percent to, at max, 10 percent. It was roughly 5 percent when I joined. I had wanted to increase that somewhat, our conversion rate somewhat, not by reducing our standards, but by increasing where we think there's the potential for a deal to be done, like an actual interested party. That was important. The goal was to get that to about 10 percent, we're at roughly 7 percent, 8 percent right now. Again, that's 10 percent from the second level, not from the topmost level.

Ashwani Verma — Analyst, UBS

All right. Thank you.

Operator

Your next question comes from Zachary Evershed with National Bank Financial. Your line is now open.

Zachary Evershed — Analyst, National Bank Financial

Good morning, everyone. Great colours so far. Most of my questions have been answered, but maybe just one quick one. If we look at the remaining potential milestone payments out that the Trust has committed to, how many others are paired with offsetting inflows, like we just saw with Orserdu?

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

I think as a directional statement, Zach, and we've said this a number of times, generally, the payment of milestones is something that's IRR accretive for us. The scenarios where we're paying milestones out are matched with a profile of returns on that deal that are the same or better inclusive of the milestones than they would have been had the milestones not been triggered. Those are not things that take away from returns by and large.

Zachary Evershed — Analyst, National Bank Financial

Perfect. Thanks. I'll turn it over.

Operator

Your next question comes from Tania Armstrong with Canaccord Genuity. Your line is now open.

Tania Armstrong-Whitworth — Analyst, Canaccord Genuity

Hi. Good morning, guys. Again, most of my questions have been answered. There's just one for me here. We saw you increase your credit facility size. Congrats on that. You've previously talked about restructuring or replacing that PREF layer into perhaps a more attractive form of MASDAT (phon). Has there been any progress on that, or is timing maybe it's more optimal to wait until the Manager is internalized, if it is?

Ali Hedayat — Interim Chief Executive Officer, DRI Healthcare Trust

Tania, it's Ali. I think the Manager internalization, to some extent, impedes us doing a couple of things, just given compliance restrictions and the like. We're working on juggling those various issues. But directionally, yes, we have had some discussions with the PREF holders, and I think it's probably a relatively straightforward path for us to do that. But I think the sequencing of that and the various other big picture corporate things that we have on the boil is the key variable.

Tania Armstrong-Whitworth — Analyst, Canaccord Genuity

Excellent. Thank you so much.

Operator

There are no further questions at this time. I will now turn the call over to Gary for closing remarks.

Gary Collins — Chairman, Chief Executive Officer, DRI Healthcare Trust

Thank you, Operator, and thank you, everybody, for taking time to be on the call with us this morning. We will talk to you over the next couple of days, and if not, then in three months. Thank you very much.

Operator

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