DRI HEALTHCARE

Q4 and Full Year 2025 Earnings Call Transcript

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Presentation Transcript

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust's 2025 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 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's other filings with Canadian securities regulators. DRI 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. The definitions of these measures and reconciliations to measures recognized under IFRS are included in our earnings press release as well as in our MD&A for this quarter, both of which are available on our website and on SEDAR+.

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, Wednesday, March 4, 2026.

DRI's quarterly results press release, and the slides of today's call will be available on the Investor page of the Company's website at DRIHealthcare.com.

I would now like to introduce Mr. Ali Hedayat, CEO of DRI Healthcare. Please go ahead, Mr. Hedayat.

Ali Hedayat - DRI Healthcare Trust - Chief Executive Officer

Thank you, Operator, and good morning, everyone. And thank you for taking the time to join us today. Joining me here on the call are Navin Jacob, our Chief Investment Officer, and Zaheed Mawani, our Chief Financial Officer.

On the call today, I will provide a recap of our 2025 highlights, followed by financial performance for the full year. Navin will then discuss our portfolio assets and share insights into our market outlook. Zaheed will cover off our key financial highlights for the fourth quarter, and I will close out the prepared remarks with our 2026 financial outlook and share some thoughts on our longer-term growth framework before moving on to Q&A.

Looking back on 2025, we worked through a year of exceptional change for the company while executing at a high level across the organization. Our investment team continued to deliver on innovative and well-structured transactions, leading us to exceed our five-year deployment goal of $1.25 billion with the upfront and committed capital deployments in our Viridian and Ekterly deals. Beyond the capital deployed, these deals demonstrate DRI's leading capacity to structure win-win solutions that advance the needs of our counterparties and provide our Unitholders with great returns.

On the operational side, we continue to execute at a similarly high level. The internalization of our manager was a large and complex step for the organization, but a critical one to align both our governance and incentives with Unitholders, and to achieve a meaningful uplift to our economic returns. This year has already demonstrated significant gains from that process and we feel better about the pace and magnitude of benefits than we did when we first presented the transaction.

We optimized our cost structure, leading to our highest-ever margins on a normalised basis, and made improvements across processes in every functional area.

One achievement I'm particularly proud of is the establishment of our proprietary Risk Assessment Framework introduced this year. This data-driven framework helps us to evaluate risks across our royalty assets, the broader royalty market, our balance sheet, and the overall backdrop for our business. It guides our decisions on where to invest, which deals to pursue, how to price them, and how to manage sizing in our portfolio.

Lastly, we continue to lead the sector on the integration of AI into our workflows, with two dedicated team members and internal compute now working to make our execution better in speed and in quality.

I would also like to take a moment to discuss the investments we are making internally to strengthen our bench and fuel our growth agenda.

In early January, we welcomed Wesley Nurss as our new SVP Head of Research. Wes brings a deep investment background in the biotech space and will lead our commercial and pre-commercial diligence efforts as part of Navin's investment team.

On the balance sheet side, we also took steps to increase Unitholder value through a series of meaningful transactions. We repurchased and canceled roughly 1.4 million Units, reducing our Unit count by nearly 3 percent. This comes in addition to our regular dividend of $0.10 per quarter, which we are increasing to $0.11 per quarter starting in the first quarter of 2026. Between these two, we have returned in excess of $36 million to Unitholders over the year.

We reduced the number of preferred shares outstanding in the second quarter by redeeming and canceling $10 million of face value of our Series C preferred securities for $9.5 million, along with outstanding and accrued interest. Subsequent to the end of the fiscal year, the Trust entered into an agreement with a private placement investor to partially redeem and cancel an additional $9.9 million face value of preferred securities for $9.8 million plus accrued interest.

As you have seen in Monday's press release, we have also reached an agreement with two of our preferred holders to swap the vast majority of the remaining preferred share balance into a convert at attractive terms that further reduces both our coupon payments and extends our maturities. We expect that the small residual preferred share balance will be paid down at or before its call date in 2029 with cash on hand.

Turning to our credit lines, we have further amended them in the fourth quarter to allow greater flexibility and to unlock the remaining gap between our effective capacity and the headline size of the overall facility.

Lastly, we are pleased to announce that we have priced a private placement debt transaction with large institutional investors that terms out a portion of our bank facility to five- and seven-year maturities with attractive costs and greater flexibility for the Trust. We expect the private placement to have broadly similar covenants as the bank facility, but the terming of our financing allows us to invest more flexibly and provides us with more diversified sources of funding. Coming out of 2025, we continue to be well-positioned to capitalize on the opportunities ahead of us.

Turning to our full-year financial performance, we delivered record performance across all our financial metrics. Total income of $198.6 million grew 6 percent over last year, and together with disciplined expense management and internalization synergies led to an Adjusted EBITDA margin of 84 percent. Normalized for non-recurring costs, that Adjusted EBITDA margin was 88 percent, which is the highest annual margin in our history as a public company.

These outcomes are underpinned by our resilient portfolio with several assets delivering double-digit cash receipt growth, including our Orserdu, Xenpozyme, and Xolair franchises. Notably, as of the fourth quarter, we have now fully returned our investment on Orserdu I.

Partially offsetting these strong comps, we had softer performances from Omidria, Oracea, and Zytiga.

Regarding Omidria, we have been closely monitoring the structural challenges affecting the asset's performance throughout the year, and we believe it was prudent for us at this point to take an impairment in the fourth quarter of $9.7 million. While this is always disappointing, it is important that we adjust the performance expectations going into 2026 given the sequential softness throughout 2025. Navin will provide more colour on this shortly, but as a reminder, our policy is to never write up assets, so our balance sheet adjustments will only reflect negative revisions while our outperformance is only captured at the level of receipts and EBITDA.

We made big strides this year operationally, financially and in our investment strategy. I will come back shortly to talk more about how that feeds through to our 2026 outlook and our longer-term growth agenda. But for now, I will turn the call over to Navin Jacob, our Chief Investment Officer.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Thank you, Ali.

Touching first on our portfolio performance, Slide 8 shows the individual royalty receipts for the fourth quarter and full year 2025 compared to the same periods in the previous year and the previous quarter.

For the full year, our portfolio generated total cash receipts of more than $196 million, an increase of $6.5 million, or 3.4 percent growth versus 2024. The increase was driven by several factors, including, one, strong Orserdu sales and removal of certain deductions previously incurred on the Orserdu II transaction; two, growth from the additional Xenpozyme II royalty stream; three, growth of Xolair following its launch for the food allergy indication; and, four, additional receipts earned from the Casgevy and Ekterly assets, which both earned their first receipts in 2025.

These increases were partially offset by the following items: one, the timing of Empaveli payments; two, weaker-than-expected Omidria royalty receipts; three, a non-occurring milestone of $5 million from Vonjo II received in 2024 that makes for a tough year-over-year comparison; four, increased competition and generic entry impacting the sales of Oracea and Zytiga; and, finally, five, Rydapt, which is nearing the end of its royalty term and has an expected step-down in its royalty rate.

Turning to specific individual product performance, let me start with Omidria, which, as we have indicated before, has been performing below our expectations for several quarters now.

As we have previously communicated, Omidria has been the subject of continued impact from the Merit-Based Incentive Payment System, or MIPS. Consequently, there has been a resetting of the demand by physicians as they calibrate their demand such that they are not penalized by the MIPS program. The MIPS program is the basis for physicians receiving reimbursement for cataract surgeries.

As a result, through the first three quarters of 2025, we experienced cash receipt declines for Omidria. While we have seen some stabilization, what we are not seeing is a significant amount of growth in the HOPD or hospital setting. Our original forecast, driven by payer and physician feedback, was that new Medicare reimbursement in 2025 would generate growth in the HOPD setting, but thus far we are not seeing material growth.

Rayner is actively taking steps to improve the performance by continuing to leverage the Omidria sales force to maximize the number of surgeons and market access coverage within each account. Importantly, Rayner is looking to renegotiate payer contracts to ensure inclusion of separate reimbursement associated with the HOPD Medicare reimbursement.

While these steps are encouraging, we are taking a conservative stance with our updated forecast, which now predicts flat sales or no growth for Omidria over the next few years. This has led to a $9.7 million impairment, which was booked in Q4 2025.

Vertex reported Q4 2025 sales of $54 million for Casgevy. Recall we are paid in two ways for Casgevy. Firstly, DRI is entitled to an annual licence fee, for which we will record $5 million in Q1 2026. Secondly, we may be eligible in the future for annual sales-based performance fees if annual sales are over $1 billion. Casgevy uptake to date, is roughly one year faster than we anticipated and, as such, DRI may be eligible for one more sales-based payment than we had built into our acquisition forecast.

Looking now at Ekterly, we began earning royalties in the third quarter of 2025 and recorded our first cash receipt of $0.8 million in Q4 2025. Since its approval, Ekterly has shown strong performance with KalVista's U.S. business receiving 1,318 patient start forms as of December 31, 2025.

KalVista reported Q4 2025's Ekterly sales of $35 million, which results in DRI receiving cash royalties of $1.8 million in Q1 2026. Q4 2025 sales imply an annual run rate of over $140 million, which is above our acquisition forecast for 2026.

As of February 2026, KalVista has received regulatory approval for Ekterly in several key markets outside the U.S., including the United Kingdom, European Union, Australia, Singapore, and Japan.

Orserdu continues to outperform our expectations, with royalty receipts reaching $19 million in Q4 2025, a 38 percent year-over-year increase versus Q4 2024. Q4 2025 sales were also strong, and we anticipate receiving approximately $22 million in royalty receipts in Q1 2026. Furthermore, Q4 2025 sales were so strong, it triggered a milestone payment to DRI of $5 million, which will be received in Q1 2026. So, in total for Q1 2026, we anticipate receiving approximately $27 million of cash receipts for Orserdu consisting of $22 million of royalties and $5 million from the milestone payment.

Despite the continued outperformance, we maintain our view that 2025 is the peak year for Orserdu due to competition from other oral SERDs, as well as other mechanisms such as novel Pi3k inhibitors. With that said, we note that the outperformance has led to the Orserdu I transaction breaking even, on an earned basis in Q4 2025, which is near record speed for DRI.

The oral SERD market has been receiving meaningful attention over the past few months, driven by data generated by Roche and AstraZeneca. There is increasingly a belief amongst industry experts and analysts that this market could be significantly larger than initial expectations.

Roche recently noted that its oral SERD giredestrant could be its largest drug ever, which implies giredestrant peak sales of over $8 billion. This is driven by giredestrant's data in the adjuvant setting of HER2-negative/HR-positive breast cancer and by its data in combination with everolimus in all-comer second line HER2-negative/HR-positive breast cancer.

As a reminder, Menarini is running studies of Orserdu in similar settings and combinations as Roche. ELEGANT is a Phase 3 study of Orserdu versus Standard Endocrine therapy in patients with ER-positive/HER2-negative early breast cancer with high risk of recurrence. ADELA is a Phase 3 trial of Orserdu in combination with everolimus in advanced breast cancer patients with ER-positive/HER2-negative ESR1 mutation. These studies, if positive, could represent substantial upside to our expectations.

Turning to Spinraza; in the fourth quarter of 2025, the cash receipts were essentially flat year over year, as Spinraza revenues were significantly impacted by the timing of shipments outside the U.S., while increased competition from Roche’s Evrysdi, continued to impact Spinraza's market share. Spinraza's performance is in-line with our expectation.

Moving on to Vonjo, Q4 ‘25 cash receipts were 11 percent lower versus the same period last year. Sobi recently commented development work continues with the confirmatory Phase 3 study PACIFICA, which, if successful, is necessary for regulatory filing outside the U.S.

Clinical trials to investigate the potential for Vonjo and new indications are underway. These new indications were not included in our original acquisition forecast.

Sobi reported Q4 ‘25 sales of $35 million, which should translate to royalty receipts of $3.7 million in Q1 ‘26. Recall during Q3 ‘25, we had lowered our expectations on Vonjo, and the latest quarter's estimates are in-line with our re-forecast of the asset.

Finally, on Xenpozyme, we recorded $2.5 million of royalty receipts for Q4’ 25, which is a marked increase versus the prior year, driven largely by ex-U.S. launches that have been faster than our expectations. Sanofi reported worldwide Xenpozyme sales of $71 million for Q4 2025 and over $250 million of sales for full year 2025, which is ahead of our expectations.

Before I close, I'd like to touch on thoughts regarding the market and our positioning for 2026.

Citing just the fourth quarter of 2025, there have been approximately eight royalty deals for a total of $1.5 billion in announced value and at least 70 equity deals for a total of $13 billion raised by biopharma companies. 2025 was a banner year for royalty deals, with a total value surpassing $8 billion.

In closing, we expect the market to continue to grow, driven by favourable industry tailwinds and amplified by continued market awareness for royalties. We remain well positioned to capitalize on the $3 billion pipeline. Notably, we are experiencing significant volume of inbound calls, but we remain, as always, selective for the right opportunities.

I will now turn the call over to Zaheed Mawani to review our fourth quarter financial performance.

Zaheed Mawani - DRI Healthcare Trust - Chief Financial Officer

Thank you, Navin.

Turning to the fourth quarter results, we are pleased with our overall performance during the quarter. Our total income was $61.7 million for the quarter. On a reported basis, this was flat versus the fourth quarter last year; however, notably in the Q4 of 2024, our royalty income included a one-time $18.2 million back-payment related to our Orserdu asset. Of that $18.2 million, $2.5 million was related to the fourth quarter of 2024, but the balance of $15.7 million was associated to prior quarters. Normalized for this one-time $15.7 million item from the fourth quarter of 2024, our total income in the quarter increased 35 percent year-over-year.

As Navin mentioned, royalty income in our fourth quarter also included a $5 million milestone related to Orserdu which will be received in Q1.

Turning to expenses, our total expenses were $54 million, approximately $0.5 million lower year-over-year. This was primarily driven by internalization synergies, including the elimination of performance fees as well as lower compensation, being partially offset by higher unit-based compensation as a result of mark-to-market adjustments and higher other expenses. We are pleased with our progress on the internalization savings, which continue to pace ahead of our expectations.

All in, our Adjusted EBITDA for the quarter was $46.2 million, which was a 25 percent increase over the fourth quarter last year. On a rate basis, our Adjusted EBITDA margin was 91 percent versus 83 percent in the fourth quarter of 2024.

Key drivers for this positive outcome, as mentioned, was our strong top line performance coupled with prudent expense management and a 14 percent increase in cash receipts. The increase in cash receipts was partly attributable to the one-time $15.7 million of cash receipt received in the first quarter of 2025 for the prior period catch up of Orserdu as referenced earlier. In addition, as mentioned earlier by Navin, we also posted increases on Xolair, Xenpozyme, and Ekterly.

We generated adjusted cash earnings per Unit of $0.77, and we were pleased to announce yesterday an increase in our quarterly distribution to $0.11 per Unit, payable on April 20, 2026, to Unitholders of record on March 31, 2026.

Turning to Slide 12, we continue to generate strong cash flow from our assets. Over the last twelve months ending December 31, 2025, we recorded royalty income of $188.9 million plus the change in the fair value of financial royalty assets and the unrealized and realized gains on marketable securities and other interest income for a total income of $198.6 million.

After adjusting for receivables, the unrealized and realized gains on marketable securities, the net change in the financial royalty asset, and other non-cash items, we achieved Normalized Total Cash Receipts of $196.4 million.

After taking our operating expenses, management fees, and performance fees, which totalled $31.4 million net of performance fees payable into account, Adjusted EBITDA was $165 million with a trailing twelve month Adjusted EBITDA margin of 84 percent. We also generated Adjusted Cash Earnings per Unit of $2.26.

Moving to Slide 13, as of December 31, we had $42.4 million of cash and cash equivalents. We also had $59.7 million of royalties receivable and $239 million of credit availability from our bank facilities. We continue to be well-capitalised and well-positioned to fulfill any forthcoming milestone commitments as well as continue to invest in new assets.

During the year ended December 31, 2025, the Trust acquired and canceled 1.4 million Units at an average price of $9.82, totaling $14.2 million. As of December 31, 2025, in aggregate we have acquired and canceled 4.6 million Units at an average price per Unit of $7.08, totaling $32.7 million under all current and previous NCIB plans. From December 31, 2025, to February 26, 2026, we acquired an additional 75,938 Units under the May 2025 NCIB plan at an average price of $11.31, totaling $859,000 under the AUPP.

As part of our overall capital allocation strategy, we expect to renew our NCIB program into 2026. We will provide an additional update on our Q1 conference call in May.

With that, I will turn the call back to Ali Hedayat to discuss our 2026 guidance, longer-term growth aspirations and key priorities for 2026.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Thank you, Zaheed. Before I turn to our 2026 guidance and long-term view on the business, I would like to recap our 2025 performance against the targets we communicated.

As I mentioned earlier in the call, inclusive of our Viridian commitments, we are pleased to achieve our deployment target of $1.25 billion over the last five years. Our royalty income target as defined for 2025 was between $172 million and $182 million. We surpassed the high end of this target with our 2025 royalty income coming in at $188.7 million.

Finally, we set out a CAGR guidance of high single-digit royalty income growth through 2030 off a 2022 base. At the end of 2025, we are currently tracking well above this target with our current view indicating a 12 percent CAGR.

I would like to take a few minutes to lay out how the work we have done over the course of 2025 lays the foundation for driving our investment capacity and results in the years to come.

First, we have achieved meaningful margin expansion after internalizing the manager. While we don't expect our current quarter's low 90s Adjusted EBITDA margin to be our baseline going forward as we intend to re-invest in our team, we do expect our run rate EBITDA margins to be roughly 500 basis points higher than the low to mid 80s margins of our pre-internalization model. At our current scale, each percent of EBITDA margin adds a little shy of $2 million to run rate cash flow and can be passed through our leverage covenants on a backwards-looking basis, meaningfully increasing our credit capacity.

Similarly, we have achieved significant reductions in our debt amortization payments and interest costs between the private placement I mentioned earlier and the cancellation of the preferred shares we retired. While these don't pass through our leverage ratios, they do add in excess of $25 million to our annual cash flow relative to last year's run-rate. While some of this is offset by the reduction in Omidria cash flows linked to our forecast revision, we will still exit the year in a substantially better cash flow position than we entered it.

These improvements help to drive our guidance for 2026 and our long-term 2030 aspirations on Slide 16. The guidance for 2026 shows meaningful growth over our 2025 baseline.

Now, turning to our 2030 aspirations, we aim to invest between $800 million and $1 billion in the 2026 to 2030 period, a number that is fully funded with our existing capital structure and cash flows. Based on our current expectations for deal mix and returns, we believe this should underwrite a low-teens CAGR in Adjusted EBITDA from now through 2030, with sequential growth rates that accelerate through that period and beyond.

Importantly, none of this requires any additional equity and, even in the absence of any further investment, we believe our portfolio EBITDA will grow organically through 2030 with the current perimeter of assets.

Slide 17 helps to bring this all down to a set of priorities.

We intend to compound cash flow per share meaningfully over the coming years by focusing on a combination of best-in-class operational and financial execution and continuing to allocate capital in a disciplined and innovative way to further our mission of funding innovation in the industry.

We can only do that because of the hard work our team has done and I want to take a moment to thank all of my colleagues at DRI for putting up a fantastic year in 2025 across all of our functional areas. We have great things ahead of us and I couldn't be prouder of what we have done together this year.

That concludes our prepared remarks and with that, let's open the call to questions.

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 touch-tone 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 answer before pressing any keys. One moment, please, for your first question.

Your first question comes from Douglas Miehm with RBC Capital Markets. Your line is now open.

Doug Miehm - RBC Capital Markets

Thank you very much and good morning, everyone. My first question just has to do with the new guidance. Management is typically quite conservative and when you do look at what was spent on a per year basis versus what the guidance is, it is a bit lower. So would it be correct in characterizing the pacing and overall expected investment as being conservative? Or is this a function of changes within the market in terms of increased competition?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Hey Doug, it's Ali. Thanks for the question. I think there’s a few ways to put a lens on that. The first is really when you compare the current guidance on deployment to what we achieved over the past five years, I think one of the things that's worth keeping in mind is we started the prior five years with an underleveraged balance sheet and in the middle of it we had the Tzield transaction which was essentially a round trip that added something on the order of $250 million to $300 million on a levered basis to our deployment. I think those two effects basically

caused the backwards-looking deployment numbers to be a little bit higher than what we're forecasting over the next five years.

The second one, which is relatively important, is also the mix of deals that we're doing. So to the extent that we do a deal that is earlier stage either immediately preapproval or let's say early in the launch of a drug, those deals obviously don't have backward-looking cash flows and as a result it's difficult to lever those transactions based on the way that our financing works. It's still attractive to do them given the higher returns and the duration, but it is definitely something that sort of feeds through the capacity to deploy via the leverage covenant.

I think when you put those two things together you get a bit of a sense of where that number is coming out and I think those bands reflect a bit the variance in the mix. So to the extent that we do a higher number of approved deals, you should expect us to be sort of towards the higher end of those bands and to the extent that we do a higher number of pre-approved deals, we'll sort of be towards the lower end of those bands and that's the way to think about it.

Doug Miehm - RBC Capital Markets

Okay. When you think about the lower end and the pre-approved deals, you are anticipating higher returns with those types of deals.

My follow-up question has to do with Orserdu. When I think about that product, you seem to be faring quite well relative to the Lilly launch, but you're still contemplating a down year this year. I recognize that as we get into 2027 with what's coming from Roche and also Astra in the form of camizestrant, we are going to see definitely increased competition, but do you think there's a chance here given the strength of the Lilly product relative to Orserdu that you might do a little bit better than anticipated? I'll leave it there, thanks.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Yes Doug, I'll let Navin answer that one in detail, but one framing point and I think this feeds a little bit into our 2026 numbers in terms of guidance is, look, we have obviously revised our Omidria and our Vonjo numbers over the course of the year and that's baked into our guidance numbers. When you think about the things that could be a positive variance for us over the year, we have been relatively conservative in the way that we assume the competitive environment for Orserdu evolves and despite excellent execution out of the gate by the KalVista management team on Ekterly, we have not really factored in that cadence into our guidance either. So, I would say that the range of things in terms of potential positive outcomes, those are the two biggest variables to think about.

Navin, I don't know if you want to dig into Orserdu in a bit more detail.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Sure. Thanks for the question Doug. So, on Orserdu, remember that the asset has been almost from day 1 outperforming our expectations and so it's easy to get excited by that and assume that it's going to continue to outperform our expectations – entirely possible, right? But what we're confident about is that this is the year, this is sort of the dynamic year for Orserdu, for lack of a better term.

The timelines of when we anticipated these competitor oral SERDs to come into the market are exactly what we anticipated at the time of the acquisition, and so while the launch has gone faster than expected, the competition and how heavy that is, how heavy that competition is, is exactly as we anticipated and all of those start hitting this year. Lilly's, this is going to be their first full year—and it is Eli Lilly. Roche obviously, as you pointed out, is coming in 2027 and with very different data and differentiated data than we've seen thus far. So, I think it would be imprudent of us to change our outlook that this is going to be a down year relative to 2025.

Having said that, I think what we were trying to provide in our commentary is to suggest that, look, the Menarini has been performing quite well, both commercially but also with regards to their clinical strategy. You can see the strategy that they've taken forward, which is different than Eli Lilly or AstraZeneca, is much more in-line with Roche, and Roche is now talking about giredestrant being the largest drug they've ever had. And from a risk-reward perspective, given that we've been conservative, that kind of level of upside is nowhere near close to any of the upside that we had anticipated for the product, so all of that just speaks to the risk-reward that we try to build in for investors.

Doug Miehm - RBC Capital Markets

Thank you.

Operator

Your next question comes from Erin Kyle with CIBC. Your line is now open.

Erin Kyle – CIBC World Markets

Hi, good morning. Thanks for taking the questions. I wanted to ask on the pipeline, and maybe if you can just dig into that $3 billion pipeline and how much of that—maybe what the split is between pre-commercial and commercial deals in it, how many deals you're tracking in there and what the range is per transaction, and then just whether you're near exclusivity on any deals would be helpful.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Hi, Erin. Thanks. So, on the pipeline, a large proportion of the deals are skewed towards pre-commercial. Having said that, I would argue that the nearer-term pipeline, call it over the next six to eight months, is more skewed to post-approval drugs. So, I would say that the deals in, call it month 8 and beyond that could come to fruition are definitely skewed towards pre-commercial, but more near-term, again, six to eight months where the deal pipeline is shaken out so it's closer to being commercial assets.

Erin Kyle – CIBC World Markets

Okay. That's helpful. Then just the sort of the range of size in the pipeline, is it kind of in-line with your historical acquisition size?

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Correct. It's in-line with our acquisition size of $50 to $150 million has been the sort of sweet spot we've played in. I neglected to answer your question on exclusivity. We're not in exclusivity with someone. I'll just leave it there.

Erin Kyle – CIBC World Markets

Okay. Thank you.

Then I just wanted to ask another question on kind of the competitive environment. I hate to be the one to ask an AI question here, but with AI fears kind of hitting nearly every industry here, I did want to ask if whether you see any risk to your business from the possibility of it possibly being easier to build a database to track existing royalties or biopharma companies that are capital constrained? I'll leave it there after the question. Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Erin, I'll take the AI one. I think we actually see AI as an opportunity. We spent a lot of time investing in that over the past year, year and a bit. As I mentioned on the call, we have two team members who are basically solely dedicated to improving throughput and efficiency of our various processes with AI. We actually have bought a number of GPUs and are using them to sort of run models that have been trained and modified to work on our own datasets.

I think in terms of lowering the competitive barrier, I think there's probably areas in which that will be easier, if you will. Processing large amounts of patent filings and the like, I never really viewed those things as something that were a material edge for us; they were just hard in the sense that you require dedicated people to go through large amounts of paper. I think the edge

is really a combination of relationships, industry expertise, deal structuring capacities and the like, which I don't think really will be particularly impacted by AI. But if you will, the velocity and sort of speed of processing through a deal will be impacted by AI, but I would say we are probably at this point doing a better job than most in terms of adapting our processes to that.

I think in terms of the pipeline, I'll let Navin take the question. Or the competitive environment, rather. I'll let Navin take the question.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

With regards to how that affects our ability to compete, we have not thus far seen anything remotely close to affecting our ability to compete with regards to AI. If anything, Ali has been well ahead of I'd say most folks on the AI front, him and the management team at large; prior management had been investing in this space and so we've been working on this for a couple of years, so if anything, we're ahead.

Erin Kyle – CIBC World Markets

Okay. That's very helpful. Thank you. I'll pass the line.

Operator

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

Michael Freeman – Raymond James Ltd.

Hey. Good morning, Ali, Navin, Zaheed. Congratulations on the year. I wanted to—maybe following on Erin's question, I wonder if you could dive into the Risk Assessment Framework that you discussed, Ali. Maybe give some examples of how you're using the tool and what areas, maybe in the current pipeline you're looking at, areas that you're seeing this tool steer you toward investing and maybe areas that it's steering you away from.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Yes. Thanks for the question. I think the right way to look at this is if you think about the business and you think about the various range of degrees of freedom that we have in terms of our balance sheet and leverage covenants and the like, that range will always be bigger than, let's say, what we should do. And what we should do, I think, is defined by a combination of thinking through risk, thinking through cash flow dynamics, portfolio construction, and the like. Really the purpose of the Risk Framework is to say, all right, yes, we could, let's say this year, deploy another $150 million into pre-approval deals. Should we do that? Because we already

have one large pre-approval asset on the portfolio right now. And even though we could technically, let's say do more, is that the right decision?

The answer to that, I think, depends on where we are in terms of our leverage ratios and our current exposures, where we are in terms of the ability to unlock our balance sheet based on trailing twelve month cash flows and feeding through our debt covenants and various things like that. And what the risk framework does is it pulls all of that together and says, “All right, here's the current parameters in terms of various risks to the business,” and that could be approval. It could be things like regulatory risk, pricing risk for the various drugs, given what's going on in the world. It could be some bigger picture factors, performance of our specific assets. And it says, “Given all of that and given what we have on deck in terms of potential avenues of future deals, which ones should we be chasing? How should we be sizing them? How should we be structuring them?” It's sort of an overlay that I think takes our degrees of freedom and focuses them down on two or three things that we think will be the best risk-adjusted decisions to make for the portfolio overall.

Michael Freeman – Raymond James Ltd.

All right. Thank you very much for that.

Maybe this one could be for Navin. Looking at the Viridian assets, I wonder if you could just give us a view of the pipeline dynamics in this space.

In December, we saw the failure of argenx thyroid eye disease assets. I wonder how that and maybe other action in this space adjust to your market share expectations for veligrotug?

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Well, to be honest, we had built in a fair amount of competition, including Roche's satralizumab into our expectations. That asset has played out not particularly well; one trial was successful, one trial was not. This is the anti-IL-6. So, there is potential upside to our expectations.

With that said, given the changes with the FDA moving towards one Phase 3 trial being enough for approval, perhaps the satralizumab gets approved.

With that said, the data there for that drug was not as good as veligrotug and we don't anticipate we'll be close to elegrobart, which is the new asset that we also have a stake in that was formerly called VRDN-003. All this to say that there is certainly upside to our acquisition forecast with the failure—or weak data, let's put it, of the Roche asset and what looks to be like mediocre assets as well in the rest of the pipeline.

Michael Freeman – Raymond James Ltd.

All right. Thanks, Navin. I'll pass it on.

Operator

Your next question comes from Nate Po with National Bank Capital Markets. Your line is now open.

Nathan Po - National Bank Capital Markets

Hi, guys. Thanks for taking my question. You spoke to record margins this year, and if your prior aspirations for high single-digit royalty income growth still stand, and you pair that with your new aspirations for low teens EBITDA growth, can you expand on where you see incremental margin accretion opportunities coming from?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Hi, Nate. Like I said on the prepared remarks, our objective really isn't to grow margins meaningfully beyond where we're at right now. If anything, I think we'll probably, relative to this low 90s number that you're seeing now, we'll probably re-invest a bit into the business on the team side.

I think when you think about that low-teens aspiration out to 2030, I think that's really being driven by the top line. We probably have a little bit of both operating leverage and one or two remaining bits of low-hanging fruit, but I think what you're really seeing there in that longer-term aspiration is confidence around the top line rather than further margin expansion.

Nathan Po - National Bank Capital Markets

Great colour. Thank you. You mentioned reinvesting in your team as well. So, to support the deployment aspirations you guys have, how do you see your current deal team's capacity or if you're investing in other places, could you just expand on that?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I think the deal team capacity is pretty well matched to the balance sheet capacity. I think one of the things that we're thinking about a lot is A, in an AI-centric world, what the mix of people on the team should be. So, as these tools expand our capacity to do things, for example, do we need more vertical domain expertise and the ability to assess pre-approval assets, for example, or do we need other areas of vertical expertise?

So, I think what you'll see us do is maybe fill in various areas of the deal team to match where we're trying to take the business. I think that will be very much with a mind to use the great Gretzky expression, skating where the puck is going in terms of AI, expanding our capacity to do things.

Operator

Your next question comes from Louise Chen with Scotiabank. Your line is now open.

Louise Chen – Scotiabank Capital Markets

Hi, congratulations on all the progress this quarter and thanks for taking my questions here. I wanted to ask you first on Viridian's product and if the veligrotug, if it gets approved this year, will there be upside to your Adjusted EBITDA guidance or is it already incorporated into there? And then on the VRDN-003 product, just curious what you think might be a clinically meaningful outcome. Do you expect to have efficacy advantage over a drug like Tepezza or is it more the convenience? Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I think in terms of thinking about our guidance, we don't tend to price in things where we don't have a lot of visibility, right? And as I mentioned earlier on the call, even areas like the launch of Ekterly, which the execution there has been superb out of the gate, without getting a few quarters behind us that really feed into a well-grounded set of assumptions, it's pretty hard for us to tweak things up. So I think when you put a lens on the Viridian portfolio or any of our earlier stage assets or assets that are sort of early in their launch curve, you should assume that we're not sort of taking a very dynamic pricing up or revising up of our forecast based on things coming out of the gate a little bit stronger until we get some data behind us to justify that.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

And Louise, on elegrobart, which is the new name for VRDN-003, our expectation is that, listen, if it achieves what Tepezza has achieved in the active TED setting, it's a home run, right? But we don't necessarily need it to achieve that for this to be a very big drug because of the convenience factor.

Veligrotug, just to be clear, we think is a superior product to Tepezza given both its activity in active TED and in chronic TED. And as a reminder, both trials were stat sig positive, while with regards to the Amgen trial, the chronic trial had mixed results. Furthermore, you have diplopia data with veligrotug, which you don't have very clear efficacy on with Tepezza. So elegrobart, if it comes even close to that, it will be a fantastic product given significant convenience advantages.

Louise Chen – Scotiabank Capital Markets

Thank you.

Operator

Your next question comes from Justin Keywood with Stifel. Your line is now open.

Justin Keywood – Stifel

Thanks. Good morning. Nice to see the results. My question is around some of the initiatives for the business model improvement and capital structure refinement. It appears to be leading to somewhat better valuation in the shares, but still lagging certain peers, including the largest one out there and depending on what metric you look at, DRI could be valued at half that up here. I'm wondering if there's any remaining initiatives that could help bridge the valuation gap, and is a Nasdaq listing a potential in the future as well?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Hey, thanks for the question. Look, we're constantly thinking about things that could help to bridge that valuation gap, and I personally agree with your assessment there in terms of where we sit in terms of valuation.

I think in terms of a Nasdaq listing, I think the scale of the business probably needs to reach a point that will attract more attention from the U.S. investor base and I think we're not quite there yet. I think we're well on track to get there but I think we don't want to put ourselves in a position where we're sort of orphaned as a smaller and less focused on equity in the U.S. market, because it's just not productive to be there. I think we have good support across all aspects of the capital markets in Canada, whether it's sort of debt or equity. I think our financing partners here have been fantastic across the spectrum.

I'm really happy to see the reception that we got for the private placement. Those are all top tier, big U.S. institutional investors and I think we'll continue to sort of penetrate that market on the debt side as we grow the business. That's a very encouraging step for us in terms of broadening our capital base.

Justin Keywood – Stifel

Thank you very much. That's helpful.

Operator

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

Leszek Sulewski – Truist Securities

Thank you and congrats on the progress. So, Ali, maybe on the near-term pipeline, where are you seeing the better risk-adjusted spreads right now as it relates to categories of assets and perhaps indication areas? And how would you rate the quality of the assets from what you framed as increasing inbounds?

Then as a follow-up, to the extent that you can share, can you provide or walk us to where you are standing on the early-stage versus late-stage due diligence process and what have been some of the gating factors on closing a transaction? Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I'll let Navin take those, but I'd broadly say in terms of return and risk characteristics, I don't think we have seen a significant move one way or the other. I think the inbounds of the business remained very attractive from a risk-adjusted return perspective. I think the need for capital, as Navin addressed in the call earlier, is still very significant. We've seen the royalty market grow in terms of penetration pretty meaningfully over last year, right? We exited at something around $8 billion of deals in the sector. So, we're pretty happy with what we see out there in terms of pipeline.

I don't know, Navin, if you want to get into some of the granular aspects.

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

I would characterize this as mid-stage on a couple of potential deals. But everything else I would characterize as somewhat early-stage. For the reasons that Ali had pointed out, our pace of deployment over the next one, two years may be a little bit slower than what we had been conducting for the past three, four years, largely because of being—I'll just reiterate, we were highly under-levered before at the start of that four-, five-year period and then we benefitted from Tzield, which gave us more capacity. And while the capacity exists today, because we're going through this transition of taking on a greater proportion of pre-approval deals, that's not to say, just to be very clear, that we're not going to be doing approved drug deals. We are. And as I noted, our near-term deals are more weighted towards approved drugs.

There is a bit of a transition going on. And as that transition goes on, because of the shape of the cash flows associated with the pre-approval drugs versus approved drugs and the subsequent leverage capabilities, there is sort of a 12-month to 24-month period where we have slightly slower deployment pace than we have historically seen.

Then after that, it'll be back to normal as these pre-approval drugs kick in, as we're seeing with KalVista and with what will hopefully be the veligrotug in the second half of this year. So, you can understand why there's a slight bit of change in pace for the next 12 to 24 months.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

And I think one thing, just to round out the colour there, when you look at that $8 billion of deals last year, it was actually—while it was a significantly higher dollar value of deals, it was a lower number of deals and that's kind of interesting. And you see that migration in deal size, which is something that we've consistently seen over the past two or three years to bigger deals.

I think that feeds in a little bit to Navin's comments, which is, you know, I think the kind of tick-tock cadence of a small to medium-sized deal every six months or something like that is probably, while still possible, a bit less likely. I think what you'll see is larger transactions with a bit more spread out timelines from us because I think that's really what we're seeing in the market.

Operator

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

David Martin – Bloom Burton Securities Inc.

Good morning. First question: Does Sobi have any upcoming new program initiatives to reverse Vonjo weakness, excluding any new indications?

Navin Jacob - DRI Healthcare Trust - Executive Vice President, Investments & Chief Investment Officer

Excluding new indications? I would argue that the new indications are the largest driver of growth on a go-forward basis. They do have some lifecycle management programs where they expand beyond not just new indications, as in true new indications, new therapeutic areas, which they're working on, but there are some lifecycle management programs that, for instance, you know, ensuring that physicians understand the value of the product in the anemic setting, which we would argue is as good as momelotinib. However, GSK took full advantage of that profile of momelotinib and penetrated there. We firmly believe Vonjo has a similar product profile as that product in the anemic setting, but there is work that's being done by Sobi to ensure that physicians understand the strength of the asset in that setting.

David Martin – Bloom Burton Securities Inc.

Thanks. Second question, you're doing some pre-commercial deals and they're relatively new for you. Are your competitors following that as well? Are you seeing them chasing those same types of deals?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Our competitors have been in that space for some time in varying ways, right, and I think there are some competitors who operate in more sort of fixed income adjacent spaces who don't do that. But the ones that have operated in what I would say are more equity-like in philosophy, they have been reasonably active in that space to varying degrees.

I don't think our exposure or direction stands out in any way there. I think if anything we are sort of reasonably conservative in our pre-approval exposure as a percentage of assets. But it's nothing sort of hugely new for the industry and, frankly, nothing new for us, right? We have had implicit exposure to new indications and in many of our prior deals it has been combined with some existing cash flows from potentially those same assets. But a lot of our prior deals, the economics have been driven in no small part by a broadening of the indications for a given therapy.

So, I would say it's not a huge divergence from the industry or even from our history in many ways.

David Martin – Bloom Burton Securities Inc.

Okay. Great. Thank you.

Operator

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

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

Ash Verma – UBS Securities

Oh, hey, guys. Thanks for taking my question. I was just trying to understand the top line. I see a lot of these assets, the cash receipts, when you look at Slide 8 are declining and bulk of the growth is coming from a handful of key products. As you think about 2026, just on a product basis, is it continuation of the same trend? And just when you are talking about the 2026 outlook, how much of your EBITDA growth is coming from the internalization savings as opposed to top line growth? Thanks.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Ash, I think it's a mix of things. I think, naturally, our seed portfolio, as we've stated many times, was always going to decline at some point and you're seeing some degree of that as we work through the next couple of years.

We obviously have two very early-stage assets that we're very excited about. The strong out-of-the-gate performance you're seeing from Ekterly and what we view as a tremendous potential in the Viridian portfolio.

I think Orserdu is probably a big potential variable there in terms of rate of decline. We don't have full visibility on that, but we think we've been relatively conservative in the way that we're looking at it.

I would say when you think about 2025 through 2026, the rule there is going to be probably a mix of top line and margin expansion. I think the year-on-year margin expansion probably will account for, let's say something in the region of half or maybe a little bit more than the EBITDA growth and a little bit of top line will account for the rest and then that accelerates sequentially through the rest of our aspirational guidance horizon. So, as you get into 2027/2028, especially that sort of 2027 to 2030 period, you're really seeing a lot of top line expansion.

Ash Verma – UBS Securities

Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Sorry, as I mentioned on the call as well, even in the absence of any further investments, we do believe we can grow EBITDA through 2030. I mean, obviously not at the rates that we laid out because those imply re-investment, but we do think the current perimeter of the business is growing.

Operator

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

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Thank you all for joining us and thank you again to the DRI team for a great year. We look forward to speaking to you on our next call in May.

Operator

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