DRI HEALTHCARE

Q1 2026 Earnings Call Transcript

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Presentation Transcript

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust's 2026 First Quarter 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 to 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 Healthcare 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 news 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, Friday, May 15, 2026.

DRI's quarterly results news release and the slides from 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 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 first quarter highlights. Navin will then discuss our portfolio assets and share insights into our market outlook, and Zaheed will cover off our key financial highlights for the first quarter before moving on to Q&A.

Turning to the first quarter, we continue to carry momentum post internalization. The team is executing well and delivered another solid quarter.

From a topline perspective, we delivered double-digit royalty income growth of 18 percent, which contributed to our total income of $50.6 million, which was 15 percent year-over-year growth, a first quarter record. The top line performance is underpinned by our resilient portfolio with several assets delivering double-digit royalty income growth, including Empaveli, Orserdu, Xenpozyme and Xolair. Partially offsetting these strong comps was softer performance from Vonjo, Rydapt and Oracea.

On the expense side, the effect of our internalization optimization work continues to generate strong operating leverage driven by synergy realization and disciplined expense management. All-in, we delivered a first quarter Adjusted EBITDA margin of 90 percent. Normalized for non-recurring costs, the Adjusted EBITDA margin would have been 91 percent, which is a Company record. As a reminder, we are re-investing part of our synergies back into the business to fuel future growth, which is expected to lower our operating margin slightly from the current watermark beginning in Q2.

On the operational side, I'd like to share some insights on recent news surrounding our Ekterly investment.

KalVista Pharmaceuticals recently announced that it has entered into a Definitive Agreement under which it will be acquired by the Chiesi Group. Upon the closing of the deal, the transaction may constitute a change of control under our royalty agreement with KalVista. We continue to evaluate our rights and obligations under the purchase agreement. No determination has been made by either party regarding the exercise of any put or buyback rights.

That said, this transaction underscores the discipline of our underwriting process and our investment approach. It is a validation of the team's continued high-quality underwriting work and demonstrates another example where our view on an asset was proven out in this way. We remain excited about what Ekterly and the KalVista team will do in the HAE market, but also see ample opportunity to invest the capital into other high-return transactions in the event the change in control clauses are exercised.

DRI never buys an asset with a view to part ways with it, but we have shown our ability to redeploy capital successfully in similar occasions and will do so again here should the occasion arise.

In March, Viridian published topline data from its Phase III REVEAL-1 study of elegrobart. While the data from REVEAL-1 was statistically significant, the magnitude of the efficacy did not meet the threshold for DRI to pay certain milestone payments of $40 million to Viridian. As a reminder, DRI acquired the Viridian royalty interest for an aggregate purchase price of up to $300 million, including a $55 million upfront payment and up to $245 million subject to the achievement of certain milestones. Our maximum potential future milestone obligation has now been reduced by $40 million to $205 million from that $245 million. It is important to note that our royalty rates remain unchanged and will be applicable to both veligrotug and elegrobart. We structured the royalty transaction in a manner which would derisk the pre-approval investment, underscoring the importance of this milestone structure. Consequently, our deal returns are largely unaffected.

Turning to our balance sheet and credit facility, we executed several initiatives to improve our flexibility and optionality for the business to increase Unitholder value. During the quarter, we further reduced the number of preferred shares outstanding by partially redeeming and canceling $9.9 million of face value of our Series C Preferred Securities for $9.8 million along with outstanding and accrued interest.

Also in March, the Company completed two financing transactions that meaningfully strengthened our balance sheet to position the Company for long-term success. We closed a $250 million private placement of senior notes in the U.S. comprised of $106 million aggregate principal amount of 5.35 percent senior secured notes due March 24, 2031, and $144 million aggregate principal amount of 5.65 percent senior secured notes due March 24, 2033. The senior notes carry a lower overall cost of debt and extend the debt maturity profile of the Company. The net proceeds were used to repay a portion of the acquisition and working capital credit facilities.

Critically, this transaction also marks our inaugural entry into the U.S. private placement market, diversifying access to debt capital and opening a new and very sizable source of long-term institutional financing.

We also issued CA$108.7 million of 5.75 percent unsecured subordinate debentures maturing February 2031. The purchase price for the debentures was exclusively satisfied through the exchange of US$79.7 million of our existing 7.5 percent Series C Preferred Securities. The debentures offer a substantially lower interest rate relative to the preferred securities and provide meaningful repayment flexibility, preserving capital for deployment into new royalty opportunities.

We believe that the two financing initiatives will allow us to pursue a more balanced approach to capital deployment with the mix of high cash flowing assets that are highly financeable alongside pre-approval deals similar to the ones we recently completed, which enhance both our returns and portfolio duration.

As the business has matured, we are in a better position to think through shaping our portfolio over the long term to meet a balanced objective of optimal levered returns and growth, and we have built the tools and the balance sheet to pursue this objective.

I will now 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 7 shows the individual royalty receipts for the first quarter of 2026 compared to the same period in the previous year and quarter. Our portfolio generated Total Cash Receipts of roughly $58 million, a decrease of $3.6 million or 6 percent versus Q1 2025. The decrease was driven by several factors. First, a one-time roughly $17.5 million payment to DRI in Q1 2025 for the removal of certain deductions previously incurred on the Orserdu II transaction. And second, lower receipts from Eylea and Oracea due to market share factors driven by generics. These decreases were partially offset by a $5 million Orserdu I milestone payment received in Q1 2026, which was triggered by strong Q4 2025 sales, but coupled with strong overall Orserdu royalty performance. Also partially offsetting the declines was approximately $2 million in receipts earned from Ekterly, which as a reminder, had no receipts in Q1 of last year. Our first Ekterly receipt started in Q4 2025.

Turning to specific individual product performance, let me start with Omidria.

Q1 2026 royalty receipts increased 9 percent from the previous year. We continue to monitor the asset which has been impacted by the merit-based incentive payment system, or MIPS, in 2025 with slower-than-expected uptake in the hospital setting relative to our initial expectations. As we have outlined before, Rayner continues to take active steps to improve the performance. While these initiatives are all encouraging, we maintain our expectation of flat sales or no growth for Omidria over the next few years.

We have received an update on Q1 2026 Omidria sales, which exhibited year-over-year growth of 10 percent versus Q1 2025. Q1 Omidria performance is in-line with our previously discussed expectations.

Turning to Casgevy, as a reminder, we are paid in two ways for Casgevy: one, an annual license fee of $5 million in the first quarter of every year; two, we may be eligible in the future for annual sales-based performance fees if annual sales are over a billion dollars.

Since launch, Casgevy has seen over 500 patients initiate treatment and Vertex recently secured a pricing agreement on Casgevy for eligible patients in Germany. In addition, Vertex submitted a BLA to expand pediatric usage for 5- to 11-year-olds, which has been granted the Commissioner's National Priority Voucher. Vertex reported Q1 2026 sales of $43 million for Casgevy. The trailing twelve months of actuals are roughly 1 to 1.5 years ahead of our acquisition expectations.

Looking now at Ekterly, we recorded cash receipts of $1.8 million in Q1 2026. In the U.S., Ekterly has shown strong performance with KalVista's business receiving roughly 1,700 patient start forms as of February 28, 2026, up roughly 400 patient forms since December. This new total represents almost 20 percent of the U.S. patient population, with the asset now tracking at least one year ahead of what we initially expected. Ekterly's early launch in Germany is also exhibiting similar characteristics to the U.S. launch as adoption, utilization and growth continue to build. In Japan, Ekterly is now the first and only oral on-demand therapy available. We congratulate our partners at KalVista on the recent announcement of their acquisition by Chiesi.

Moving to Orserdu, DRI recorded royalty receipts of $27 million in Q1 2026, a 14 percent year-over-year decrease versus Q1 2025 due to the aforementioned tough comparison in Q1 2025 during which DRI received a one-time payment.

Recall Q1 2026 Orserdu royalty receipts are made up of $22 million in royalty receipts and a milestone payment to DRI of $5 million. We reiterate our acquisition underwriting assume 2025 is the peak year for Orserdu due to competition from other oral SERDs and novel PI3K inhibitors. Interestingly though, Q1 2026 Orserdu sales performance looks strong, and we anticipate receiving approximately $16 million in royalty receipts in Q2 2026. While Q1 2026 is down quarter-over-quarter versus Q4 2025, Q1 is seasonally the weakest quarter for Orserdu, and the quarter-over-quarter trend is in-line with historical quarters.

As you know, Orserdu has exceeded our expectations from launch to date. Intriguingly, we are monitoring various Orserdu lifecycle management studies, which, if positive, could represent substantial upside to our acquisition expectations.

Turning to Spinraza, in the first quarter of 2026, the Cash Receipts were down 8 percent year-over-year, mainly due to a one-time VAT refund occurring in Q1 2025. Pfizer reported worldwide Spinraza sales of $374 million for Q1 2026, a decline of 12 percent year-over-year versus Q1 2025. Spinraza continues to be impacted by lower demand and unfavourable inventory dynamics, both in the U.S. and internationally. Demand is affected by competition from Roche's Evrysdi as it expands its global position, driven in part by the rollout of its oral tablet formulation. Spinraza's performance, however, is in-line with our expectations and Q1 2026 sales should translate to between $3 million to $4 million of royalty receipts in Q2 2026 for DRI.

Moving on to Vonjo, Q1 2026 cash receipts, which reflect Q4 2025 sales, were modestly lower by 2 percent versus the same period last year. Recall, Q4 2025 sales were impacted by negative gross to net adjustments and destocking. Sobi recently commented that the confirmatory Phase III study of Vonjo, called PACIFICA, is fully enrolled. If successful, these data will be used for regulatory submissions of pacritinib—Vonjo—in the EU and Japan.

Clinical trials to investigate the potential for Vonjo in other new indications are also underway. These new indications were not included in our original acquisition forecast. Sobi reported Q1 2026 sales of approximately $30 million, which should translate to Royalty Receipts of approximately $3.5 million in Q2 2026. Recall during Q3 2025, we lowered our expectations on Vonjo and the latest quarter's estimates are in-line with our reforecast of the asset.

Turning to Slide 8, we provide the latest update on our Viridian assets.

As Ali already discussed, Viridian announced positive topline results from the REVEAL-1 Phase III trial of elegrobart in patients with active TED. While results were positive, they did not meet prespecified thresholds required for DRI to pay $40 million of milestone payments tied to the Phase III readout. In early May, Viridian also provided positive topline results on REVEAL-2, which is a Phase III study of elegrobart in patients with chronic TED. Elegrobart is now the only subcutaneous program to demonstrate positive Phase III data in both active and chronic TED.

Viridian anticipates a BLA submission for elegrobart in Q1 2027. If approved, elegrobart has the potential to be a convenient subcutaneous autoinjector with a competitive clinical profile, including fewer doses and a shorter treatment duration, and as such, our outlook for elegrobart remains very positive.

More near-term, though, is the PDUFA approval date for veligrotug on June 30. Compared to the currently approved IV IGF-1R therapy for TED, we believe veligrotug has a highly competitive profile including strong improvements in not only proptosis, but also diplopia response across both active and chronic TED. Importantly, veligrotug provides patients with significant convenience advantages to fewer infusions and shorter infusion times.

Finally, several non-IGF-1R classes of drugs have recently produced mixed or negative data in late-stage trials, supporting IGF-1R as the most clinically and commercially validated mechanism in TED. In our acquisition model, we have included some of these non-IGF-1R drugs. Thus, their weak data provides, at a minimum, a very healthy safety margin to our acquisition forecast with potential for material upside.

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

During the first quarter of 2026, we tracked at least three royalty deals for a total of approximately $400 million in announced value and more than 50 equity deals across the United States and Europe for a total of $10 billion raised by biopharma companies. On a trailing twelve month basis, the size of royalty deals is at least $6.6 billion, up nearly 20 percent versus the same period ending in Q1 2025.

In closing, we expect the market to continue to grow, driven by favourable industry tailwinds and amplified by continued market awareness for royalties.

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

Zaheed Mawani - DRI Healthcare Trust - Chief Financial Officer

Thank you, Navin.

Turning to the first quarter results, our Total income was $50.6 million, an increase of $6.5 million or 15 percent year-over-year, primarily driven by higher Royalty income led by Orserdu and Ekterly and continued strength of Xolair. These were partially offset by lower Vonjo, lower sales for Rydapt as prior year income included a one-time adjustment in sales and a decline in sales for Oracea due to competition from generic products.

Turning to expenses, our total expenses were $42.2 million, approximately $3.6 million lower versus last year. This was primarily driven by internalization synergies, including the elimination of performance fees, lower compensation, as well as other lower other expenses. These were partially offset by higher unit-based compensation from mark-to-market adjustments on Restricted Unit grants and some incremental transaction costs related to our financing initiatives in the quarter.

Three quarters post-internalization, we continue to deliver at a pace which is ahead of our synergy targets and are pleased with the execution and discipline shown from our entire team. Additionally, this quarter, as part of the accounting for the financing initiatives mentioned earlier, we recognized a loss on debt refinancing of $9.8 million in the quarter relating to the preferred securities conversion. This $9.8 million is comprised of a loss of $1.2 million related to the partial purchase and cancellation of the 2024 Preferred Securities and a loss of $7.3 million resulting from the extinguishment of a portion of the 2024 Preferred Securities in exchange for issuing new debentures.

Finally, unamortized deferred transaction costs of $1.3 million related to the portion of the 2024 Preferred Securities exchange were also recognized as a loss on debt refinancing. Notably, these accounting adjustments are one-time in nature and do not impact Adjusted EBITDA.

All in, our Adjusted EBITDA for the quarter was $52.8 million, which increased by $1.1 million over the first quarter of last year. On a rate basis, our Adjusted EBITDA margin was 90 percent versus 83 percent in the first quarter of 2025.

Cash receipts for the quarter were $58.4 million, a decrease of 6 percent year-over-year. The decrease was driven by the cycling of the previously discussed $17.6 million Orserdu II refund last year, lower receipts from Eylea and Oracea, partially offset by the $5 million Orserdu I milestone payment, coupled with strong overall Orserdu sales and $1.8 million in receipts from Ekterly.

We generated Adjusted Cash Earnings per Unit of $0.68, and we announced yesterday our quarterly distribution of $0.11 per Unit, which will be paid on July 20, 2026 to Unitholders of record June 30, 2026.

Turning to Slide 12, we continue to generate strong cash flows from our assets. Over the last twelve months ending March 31, 2026, we recorded Total income of $205.1 million. After adjusting for receivables, net unrealized and realized gains, the net change in financial royalty asset and other non-cash items, we achieved Normalized Total Cash Receipts of $192.8 million. After our operating expenses, management and performance fees and net change in performance fees payable, which collectively totaled $26.7 million, Adjusted EBITDA was $166.1 million with a trailing twelve month Adjusted EBITDA margin of 86 percent. We also generated Adjusted Cash Earnings per Unit of $2.51.

Moving to Slide 13, as of March 31, we had $52.5 million of cash and cash equivalents. We also had $54.3 million of royalties receivables and $502.7 million of credit availability from our bank facilities.

Using the net proceeds from our U.S. private placement, as well as cash on hand, we repaid $263.8 million on our credit facility in the quarter. We continue to be well-capitalized and well-positioned to fulfill any prospective milestone commitments as well as continue to invest in new assets.

Furthermore, we will continue to allocate a portion of our capital towards Unit buybacks. The TSX has accepted our Notice of Intention to Renew our NCIB. We will retain discretion whether to make any purchases under the new NCIB and to determine the timing, amount and acceptable price of any such purchases subject at all times to applicable TSX and other regulatory requirements. All Units purchased by the Trust under the new NCIB will be canceled.

Beginning May 20, 2026 through May 19, 2027, we will have the ability to purchase approximately 3.1 million Units in aggregate. Importantly, any capital allocation to the NCIB will not have a material impact on our acquisition ability. During the three months ended March 31, 2026, the Trust acquired and canceled 76,000 Units at an average price of $11.31 totalling $859,000.

As of March 31, 2026, in aggregate, we have acquired and canceled 4.7 million Units at an average price per Unit of $7.15, totalling $33.5 million under all current and previous NCIB plans. From March 31, 2026 to May 12, 2026, we acquired an additional 38,000 Units under the May 2025 NCIB plan at an average price of $11.67, totalling $448,000 under the AUPP.

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 handset 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

Good morning, everyone. I have two questions. My first one has to do with the Ekterly situation. When we ran our math, it did look attractive for Chiesi to buy back this royalty, estimating at least a 17 percent 18 percent IRR on their part if they were to go ahead with it, so I think they will. However, what I'm curious about is your commentary around may represent a change of control. Would you be willing to expand on that so that we can be more confident in what might happen here?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Hey Doug, it's Ali. Thanks for the question. I wouldn't read much into that. I just think we are at a phase in this process where beyond what you're seeing on the tape, we have pretty limited information. We're essentially working through it from our vantage point and trying to figure what's optimal for us. I'm sure they're doing the same thing. We will see where all of that leads, in effect. I wouldn't read into that that we have determined that it's on one side of the fence or the other side of the fence.

Doug Miehm - RBC Capital Markets

Okay, perfect. My follow-up question has to do with the refinancing of the debt and what you were able to accomplish there, which seems very attractive, taking down your cost of debt by, jeez, 150 basis points or so. How important is that to the Company when it's considering new royalty opportunities and how would that compare relative to perhaps your competition? I'll leave it there. Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I'd frame that, I guess, by saying when you look at the realm of cash-flowing assets that are approved, I think the debt refinancing gives us two meaningful benefits. The first one, as you allude to, is a lower cost of capital, which makes us significantly more competitive, and I think that's something that we will certainly make use of.

I think the second one is it allows us access to a very deep pool of capital that could, especially for those types of assets, make us significantly more capable of doing larger-sized transactions. I think it helps us on both fronts.

I would go back to something I've been talking about and I alluded to on the call a bit earlier. It also helps us to really think about the shape of the portfolio, right? We can drop in cash-flowing assets at levered returns that are very attractive to us at this lower cost of debt. Then we can balance them out with longer-duration, higher-return transactions on an unlevered basis in the pre-approval market. I think that allows us to approach the broad royalty investing space with a very balanced and very thoughtful approach and really start looking at our portfolio more at a portfolio level rather than a sort of transaction-to-transaction type of framework. So I think that's probably the way I would look at it.

Doug Miehm - RBC Capital Markets

Okay. That's great. Thanks very much.

Operator

Your next question comes from Nathan Po with National Bank Financial. Your line is now open.

Nathan Po - National Bank Capital Markets

Good morning everyone. Thank you for taking my question.

I want to follow up on that mix of pre-approval and commercial assets. I know last quarter, we did speak to that as well. How do you expect leverage to shape up throughout the year? Can you dive into more of the mechanics of how this net stack enhances your flexibility to take that portfolio approach?

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I think if you were to take the two extremes and say, “Look, we're going to buy a highly cash-flowing asset that is three or four years into its sales curve,” that asset fits into our facilities very well from a leverage perspective. The cost of debt underlying that leverage is lower, right? When you think about returns to Unitholders, those are ultimately levered returns. If we can apply more leverage and apply it at a lower cost, I think that allows us to be more active in the space of

assets that are cash-flowing and be more competitive in that space than we have been historically.

The other end of the spectrum, obviously a pre-approval asset two or three years or one or two years away from sales is not an asset that we can really pass through our leverage facilities in an easy way because it's not generating trailing cash flow.

What we are trying to do here is to say, all right, let's look at the scope of transactions available to us. Let's think about how they fit into our balance sheet and let's construct a portfolio where we're sitting at an optimal point of levered returns, duration, and growth over time. I think being able to be more competitive in the approved assets space while extending our duration and boosting our unlevered returns with pre-approval assets is really an optimal way to do that.

I think what you'll see us do is be a lot more thoughtful about how an asset fits into our portfolio alongside the usual criteria we apply at the asset level and optimize for that. I think the history of the Company looking backwards was very much an asset-by-asset type framework. I think right now we'll still have that, but we'll have a portfolio framework that is more meaningful as well.

Nathan Po - National Bank Capital Markets

Thank you. I appreciate the colour.

You mentioned earlier royalty deals are up 20 percent year-over-year. As you evaluate new royalty opportunities in the current market environment, are you seeing any changes in expected return threshold competition or transaction structures?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I'll let Navin speak to the royalty market, but one thing I do want to highlight with the growth in the market—and I think this is an important comment. I think looking back two or three years ago when capital was relatively scarce in the sector and the biotechs were having difficulty funding in equity markets, M&A was absent for the most part and debt markets were quite difficult, there was a thought that the growth in royalties over that period reflected essentially some degree of necessity on the part of biotechs and not genuine penetration of the asset class as a form of funding.

What I think is really important to highlight in the growth last year is to us that is a proof point that it's the opposite, that despite markets being very open last year, despite people having access to equity, despite people having access to debt, despite there being a pretty active M&A market, we still had very significant growth in royalties. I think that speaks to the royalty asset

class becoming more and more relevant as a source of funding for the industry overall, and we're super excited about that.

Navin, I don't know if you want to talk about the returns.

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

Well, a few things. There are a couple more competitors in the space, but as we've noted before, this is not an easy business to get into because there are multiple different verticals that are very different from other investment vehicles. You may be able to source but actually execute is a hard thing. You may be able to execute, but sourcing is a complicated feat in and of itself. There are legal components both on the IP front and contract front.

So the competition, if anything, just highlights the fact that there is a significant growth opportunity for the royalty investment business. So we're not necessarily concerned about the competition; it just highlights the fact, again, that the royalty business, as we've been saying for the last few years, we believe is going to be a greater proportion of how biotech companies raise capital.

With regards to returns, you know, perhaps in the post-approval setting—and by post-approval, I mean several years, if a product's been approved for several years, perhaps that return has come down a touch. But on the other hand, the overall market has grown, as you've seen. So net-net, we still are quite bullish on the opportunities that we see in front of us.

Nathan Po - National Bank Capital Markets

That's helpful. Thank you. The EBITDA margin this quarter was above our expectations. Were there any one-timers embedded in your results helping the margin profile, or is this more indicative of a sustainable level going forward, especially post-internalization?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I'll let Zaheed speak to the line item specifics. But look, we've been saying post-internalization pretty consistently that the impact of internalization was to meaningfully raise our EBITDA margins, and we've been demonstrating that over a number of quarters. I think the current levels are reflective of a period of time where we haven't been re-investing as aggressively as we'd like to in the business, so we're going to do some of that over the next two or three quarters. But I think even adjusted for the impact of that, EBITDA margins are going to be

meaningfully higher than they were in the pre-internalization paradigm, and you should think of them in the high 80s to 90 range on a sustainable basis. And I think as some of the impact of that growth investment kicks in in the topline, margins will probably creep back to the higher end of that range.

Zaheed Mawani - DRI Healthcare Trust - Chief Financial Officer

Yes, and Nathan, it's Zaheed. Hi. I just wanted to clarify one thing, is that you did see a number of new things on our statements, and none of those are flowing through to Adjusted EBITDA. Some are one-time, like I talked about in my prepared remarks. Some you'll see just as a matter of course, due to our financing initiatives, but they're not going to impact the margins going forward, Nathan.

Nathan Po - National Bank Capital Markets

That's helpful. Thank you very much. I'll turn it over.

Operator

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

Michael Freeman - Raymond James Ltd.

Hi, good morning, Ali, Navin, Zaheed. Congratulations on the results.

Thanks for touching on the Viridian REVEAL-1 and REVEAL-2 readouts for elegrobart. That detail has been helpful. I wonder if you could talk about how you're thinking about its market positioning, I guess, for both elegrobart and veligrotug versus Tepezza and how this might compare to your underwriting assumptions, and then ultimately how this will influence royalty returns.

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

Thanks. Thanks, Michael. First off, with regards to our underwriting expectations, how things have played out are largely in-line with our expectations, particularly because we had structured the deal in the way we had that I think reflects the type of research that we do, the depth of

research we do and then add on top of that the ability to create novel financial structures that provide adequate returns that are not just adequate, but healthy returns for our Unitholders.

With regards to the positioning, we're very excited by what Viridian is capable of doing, what has been shown by both veligrotug as well as elegrobart. So starting with veligrotug that alone, even though it's IV, is in our opinion superior to Tepezza, simply because of the fact that it has shown efficacy not only in the active TED space, but also in the chronic TED space. It has shown efficacy not only in proptosis response that is equivalent to—at least equivalent to that of Tepezza, but also diplopia response was very strong and both, again, and not just in active, but in the chronic TED space. And furthermore, there is a strong convenience benefit with veligrotug relative to Tepezza: 5 infusions, a shorter infusion time relative to 8 infusions and a longer infusion time with Tepezza.

Now you turn to elegrobart, so REVEAL-1, obviously, relative to the Viridian, investors' expectations may have not come in as strong as they had anticipated, but it is nonetheless a solid product for active TED, particularly when you consider the fact that it is a true subcutaneous autoinjector, and that's important relative to the "subcutaneous version" that Amgen is coming with, which is not really a true subcutaneous.

Importantly, I think REVEAL-2 turned out, which is the chronic TED space, and that's really where elegrobart can shine is that data came in, I think, better than everyone's expectations. Chronic TED is a hard space to penetrate and you really needed a subcutaneous autoinjector to be able to grow that market and penetrate that market and the asset has shown high-quality data there.

So we're excited about the Viridian team. They have a strong marketing team. We're excited to see what they can do with both assets.

Michael Freeman - Raymond James Ltd.

Okay. All right. Thank you very much, Navin. That's really helpful.

Now, we see that you reactivated the NCIB and are buying back shares. Clearly, there's a view that your Units are undervalued. Related to that, I wonder if you could touch on the acquisition of Xoma by Ligand Pharmaceuticals and what read-throughs to DRI should the market take from this transaction?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I'm not sure we're going to spend a lot of time commenting on acquisitions of other companies, but what I will say is it shows the value of some of the pre-approval portfolio and the expansion of our strategy into that space.

I think the risk return that we're capturing in our transactions I personally think, is more favourable than what Xoma has been doing historically as a strategy, so I like our positioning there, but I think it does show the deep value in that space.

Michael Freeman - Raymond James Ltd.

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

Operator

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

Justin Keywood - Stifel

Good morning. Thanks for taking my call. Just with the outperformance in Q1 and positive outlook for Q2 and Orserdu, should we expect 2026 to trend to the upper end of the annual guidance? Thanks for the question.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Look, I think it's a little early for us to make guidance revisions, but we're obviously very pleased with how Orserdu and the broader portfolio are doing. We'll continue to monitor that as we go through the year sequentially, but I think it's a bit early for us to revise annual guidance at this point.

Justin Keywood - Stifel

Understood. Then on Orserdu, there was mention of lifestyle management studies that could lead to additional upside. If we could have some additional colour on what those studies could be, the timing of, and what the potential upside may be. Then also, we've noticed unfavourable AdCom for competitive or potential competitive drug to Orserdu by AstraZeneca. Does that impact the outlook at all?

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

Yes, let me start with the—Hi, Justin, how are you? Let me start with the AstraZeneca camizestrant AdCom. First, we'll say, look, SERENA-6, we always felt was a very novel study, but on the other hand it was, as the AdCom proved, a strange way of defining first line. It's not really first line. We've always internally called it one and a half lines, because you're waiting for the mutation to pop up before you give camizestrant. Now, FDA has historically gone in favour of an AdCom, but it may not. And so, it's still possible that camizestrant is approved for the first line setting.

Regardless, I think what's important is that we had built camizestrant into our expectation and other competition into our expectations at the time of the acquisition. So to the extent that competition does not play out, that is upside for us.

But just to be clear, in my personal opinion, camizestrant is an active molecule, and so where it actually ends up with an approval is yet to be determined. We'll leave that to the FDA.

With regards to lifecycle management programs, as we discussed in the last quarter, we discussed this in quite a bit of detail in the last quarter. There's several trials ongoing, the most notable one of which is the adjuvant study. That'll read out in, call it 2028, roughly. We say that's the most notable because that's really the driver behind why Roche has called their oral SERD giredestrant, they have noted that that drug is going to be their biggest drug ever, which implies a peak guidance of over $8 billion.

I'll remind folks that we have a double-digit royalty on Orserdu. If you look at the monotherapy efficacy of giredestrant versus Orserdu, you cannot tell the difference. The adjuvant studies that was run by Roche is a monotherapy study. Orserdu's adjuvant study is also a monotherapy study. We'll see how it plays out, but certainly that was not in our acquisition expectations.

So, the risk-reward from a Unitholder’s perspective relative to our underwriting is skewed significantly to the upside. Whether, how that plays out and all the other competition that's coming, I'll leave it to you good folks to determine that. But it is certainly all skewed to the upside relative to underwriting expectations.

Justin Keywood — Analyst, Stifel

Understood. Very helpful. Thank you.

Operator

Your next question comes from Jeevan Larson with Truist. Your line is now open.

Jeevan Larson – Truist Securities

Hey, this is Jeevan on for Les. Thanks for taking our questions. Do you see the new owners of Ekterly as potentially improving the long-term opportunity for the drug? And does your optionality tied to the acquisition influence the types of deals that you're prioritizing this year in terms of potentially replacing that exposure? Thank you.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Hi, it's Ali. I'll let Navin answer the first question. I think on the second one, look, we haven't really made any determination on, in the event that that capital comes our way, how we're going to allocate it. I would say it obviously, in conjunction with these debt facilities, opens a door for us to do something more meaningful from a size perspective than we would have otherwise. But beyond that, which is a relatively obvious statement, we haven't really gone through the process of thinking about how we'll allocate it yet.

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

With regards to Chiesi, look, they're a well-capitalized company that clearly has ambitions in the rare disease space. They have some experience in the rare disease space. I suspect they will take on—this is just a guess—to take on a lot of the KalVista folks because they have, KalVista is very specific to HAE and Chiesi does not have a presence in HAE. The folks at KalVista are very strong from a commercial perspective, from multiple perspectives but particularly in the commercial setting. We were very excited by what they were capable of doing and that has been proven out just in the first couple of quarters here that the product has done extremely well. We're excited in either instance.

I'll just reiterate what Ali says and just add to it that if there is capital that comes in, if there are proceeds that come in from an option exercise, we have a large pipeline. We have a strong proven track record of deploying and doing so through our proven rigorous investment process. The research around KalVista was deep and there was a lot of skepticism on the Street side with regards to Ekterly and its opportunity. We thought differently and our research has been proven correct.

Operator

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

Ash Verma – UBS Securities

Guys, thanks for taking our question and congrats on all the progress.

Maybe just the royalty market growth that you mentioned of like 20 percent, is there some unique dynamic that is driving that in the recent path? Could it be some of the scale-ups that we've seen and new pairs coming in. Just help us understand how sustainable that is. And then secondly, in terms of where you are right now, in terms of focusing on the portfolio construction going forward, how are you thinking more from a balance of commercial state assets versus the mid-stage clinical or early-stage clinical? What's the right balance for you going forward? Thanks.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Hey, Ash, I think on the first question regarding the growth in the market, I'll just repeat what I said, which is I think it's reflective of a greater penetration of royalty as a financing method in the aggregate capital stack of the biotech sector. So I think what you're seeing is more and more people get comfortable with what are the benefits of royalty in lieu of equity or debt or other forms of financing. And as you alluded to, obviously, there's concurrently been an increase in supply to some extent of people willing to fund that, but I would say the math of that capital continues to grow ahead or in-line with the supply.

I think what we're seeing is the asset class penetrate the sector to a greater degree, and yes, there has been some increase of supply of capital as well, but not in a way that sort of outpaces, from our perspective, the increase in demand.

I think in terms of thinking through the portfolio, we're not at this point in time in the early-stage business, and I think that's something that we're unlikely to be in the near future. I would say when you think about the types of pre-approval deals that we're doing, I think we have proved out a pretty successful methodology there in terms of our transaction structures. We're really happy with the way we put together the Viridian deal, and I think it provides sort of an archetype of what an ideal transaction in that space would look like going forward. That said, we're going to have to customize and tailor our transactions as we always do to meet the needs of our counterparties, and that's really one of the big elements of our competitive edge, and I think Navin and the team have done an extraordinary job of matching the interests of Unitholders with the ability to get deals done through that customization.

When you think about how we balance that out with approved assets, as I said, what we're really targeting is an optimal mix of levered returns over time. And I think the pre-approval space, stating the obvious, provides higher unlevered returns and higher duration. The approved space, again stating the obvious, provides maybe a little bit lower duration and lower unlevered returns, however it is more leverageable. And I think what you're trying to do is really blend those two things, run them through your balance sheet, and optimize where you sit on the levered return curve, and that's really how we're thinking about it.

Ash Verma – UBS Securities

Great, thank you.

Operator

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

Louise Chen – Scotiabank Capital Markets

Hi, thanks for taking my questions. I wanted to ask you on veligrotug, if you do get this product, or if Viridian gets this product approved, when will you start recognizing revenue for it, and is there any milestone payment associated with the approval?

And secondly, I wanted to ask you on Casgevy, you know, do you think, or how likely do you think it is that you will recognize the fees that you talked about for this product? And if so, when do you think you might see something like that? Thank you.

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

On veligrotug, yes, we have a $75 million milestone payment upon approval. We will start recording royalty income the first quarter it's approved, or rather the first quarter they have sales. Royalty receipts come in one quarter after, so there's a one quarter lag for the royalty receipts relative to the sales.

On Casgevy, look, the product is doing well. Vertex is executing well. It's performing roughly one to one and a half years faster than we had anticipated relative to our acquisition forecast, and what I'd say is that—what we've said before is that, you know, we anticipate sales-based performance fees to start kicking in in the second half of our entitlement, the length of our entitlement, which we have disclosed previously.

Louise Chen - Scotiabank Capital Markets

Thank you.

Operator

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

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

Good morning, guys. Just a couple for me. First off, just speaking to these change of control events, are you more likely to see these with pre-approval entitlements, and how does that factor into your return forecasting and risk modeling?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Hey, Tania. I'll let Navin speak to the general sort of elements of that in deal structure. What I would highlight here is that we're pretty conscious of balancing effectively the change of control clauses when they are in our agreements with our projected returns. So, from an NPV perspective, they're not particularly meaningful in the sense that we're achieving similar NPVs than we would with the transaction, and that's by construct.

I think the important factor to think about with these is the compounding effect of bringing in that capital and redeploying it, right? So, at the transaction level, even if you're NPV neutral, what's happening at the portfolio level is you're bringing forward that capital and you're able to redeploy it again, and it's more capital, stating the obvious, because obviously you're getting a multiple, and the impact of that is reasonably meaningful as it was in past instances where similar things have happened to us.

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

Okay. Thank you. Then in terms of the investments that you laid out, or the planned investments for Q2 to Q4, given your higher EBITDA margins post-internalization, could you kind of segment where that money is going, exactly what lines of the business you're going to be investing in?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I think there's a few areas that are relatively straightforward to think through. One is the obvious of people, and I think we continue to look for the best people that we can add to the team across functions notably on the investing side, but also in other areas of our business. I think maybe one that's a little bit less intuitive is data, and I think the higher margin structure and allows us to really think about a different calibre of data that we can acquire, and I think that really helps to enhance the diligence that the team is doing and their ability to do sort of more and more innovative transactions. So I think those are the two big areas that we will focus on.

As I said, I think we're doing it in a way that is very thoughtful, so leaving aside the quarter-on-quarter volatility, I think our margins will sort of stay around current levels, maybe a point lower or something like that in the medium-term. There may be some quarterly cadence where we're re-investing ahead of revenue growth, and you drop down to the high 80s, and then you go up to the 90s again, but, like, I think that range is sort of the right way to think about the business, but obviously for us, the key focus as we get internalization and the synergies behind it driving the topline. That's really the way we're thinking about the business now.

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

Excellent. I'll pass the line.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star, one. Your next question comes from Erin Kyle with CIBC. Your line is now open.

Erin Kyle - CIBC World Markets

Hi. Thank you. Just one question from me.

It sounds like there's potential to have a lot more optionality with the Ekterly potential buyback option, less milestones payable to Viridian after the REVEAL-1 readout, and the debt refinancing.

So, just with that in mind, I'm just wondering if you can speak to the shape of the pipeline – if there's more near-term opportunities that you're tracking, larger-sized deals? Just how should we think about your ability to potentially redeploy more capital this year than you potentially could have at the beginning of the year?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I think the big challenge is in the scope of what—sorry, go ahead, Navin.

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

No, I was just going to say, Erin, a lot has been happening over the last month, month and a half, a couple of changes that, as you noted, bring in more capacity than we had anticipated at the beginning of the year, between the tremendous job that Ali and Babak Farahmand, our EVP of Risk Ops, have done with regards to our refinancing and strengthening of the balance sheet, as well as the milestone that we're not paying out for the REVEAL studies, as well as some optionality here that may come. That has, as you noted very rightly, that changes our potential capacity, and so we are continuing to assess. We have a very large pipeline, but as you've seen us do, we're highly methodical in our approach to constructing a portfolio that balances our ability to refinance, as well as provide growth, long-term growth to Unitholders, and we want to do so in a way that creates value. So, we're going to be extremely disciplined, and we're not going to put out artificial timelines and push just for the sake of pushing, but rather do so in a way that's extremely well thought out.

We've guided not to expect a transaction until the second half of the year. I'll reiterate that, and especially since we do have more options than we initially thought at the beginning of the year, I would suggest anticipating a transaction towards the later bit of the second half of this year.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

And Erin, I'll just chime in there and say probably the most important thing is just the change in scope of what we can contemplate given this, and I think we may opt to use that scope or we may just opt to do more of the types of things that we were contemplating doing earlier in the year, more dollars of that, but it also opens a door for, I would say, something a bit broader and potentially more ambitious. But whether or not we choose to do that, I think will depend on the various options that we have in the pipeline, but it just gives us a range of potential actions that were more difficult to contemplate before this happened.

Erin Kyle - CIBC World Markets.

Thank you.

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

Great. Thank you everyone for joining us and thank you again for the DRI team for your hard work and putting up another great quarter. We look forward to speaking with all of you again in August for our second quarter. Thanks.

Operator

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