DRI HEALTHCARE

Q2 2026 Earnings Call Transcript

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DRI Healthcare Trust Corporate Participants

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Presentation Transcript

Operator

Good morning, everyone. Welcome to DRI Healthcare Trust's 2026 Second 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, Monday, August 10, 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.

With 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 second 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 second quarter before moving on to Q&A.

We are pleased to have delivered another solid quarter, posting record financial performance with double-digit growth across Total income, Cash Receipts, and Adjusted EBITDA. We continue to see a validation of DRI's approach to pre-approval assets over the past months with the monetization of our Ekterly investment and the approval of veligrotug, demonstrating the payoff of our thought leadership in structuring attractive risk-return outcomes in that segment.

From a topline perspective, we delivered Royalty income growth of 8 percent, contributing to our Total income of $50.1 million, which was up 13 percent year-over-year. Royalty income growth was led by the inclusion of Ekterly, as well as strong performances from Vonjo, Omidria, and Xolair, partially offset by slightly softer results from Orserdu and Rydapt. Notably, our Royalty income also included a $450,000 milestone payment from Xenpozyme this quarter. Ex-milestones, our Royalty income growth was 7 percent year-over-year, and Total income was up 12 percent.

I also think it's worth stepping back to look at the two-year stack. Our focus over the past eight quarters has been on optimizing our operating model for durable compounding growth. Over this time horizon, Royalty income has grown from $41 million in Q2 of 2024 to $48.2 million this quarter, up nearly 18 percent cumulatively. Total income has grown even faster, up more than 20 percent over the same comparative period. Our expense structure generated strong operating leverage in the quarter, as we continue to execute and realize our expected internalization synergies while operating with cost management discipline.

Our Adjusted EBITDA margin is tracking slightly above our internal expectations due to the high incremental margin from the Adjusted Cash Receipt outperformance we are showing versus our internal expectations this quarter.

I would like to touch on interest expense for a moment, as it's higher year-over-year on a reported basis, and I don't want that to be misread against the refinancing work we completed in the first quarter of this year. In Q2, our reported total interest expense of $9.3 million reflects a 2.5 percent increase year-over-year. However, this increase includes transaction costs related to our recent financing initiatives. Excluding these costs, our interest expense would have been $7.9 million in the quarter, representing an approximately 6 percent reduction year-over-year.

Interest on our credit facility borrowings came down meaningfully quarter-over-quarter, reflecting the benefit of the lower cost, more diversified capital structure that we put in place with the senior notes' private placement and the debenture issuance. That's the underlying trend I want to point you to.

Closing out our operating performance, all in, our Adjusted EBITDA margin for the quarter was 92 percent, up meaningfully from the 82 percent that we posted in the second quarter of last year on a normalized basis. Looking ahead, we maintain our view that Adjusted EBITDA margins in the second half of the year are expected to be in the high 80s to 90 percent range.

Operationally, I'd like to share the latest developments surrounding our Ekterly investment. In June, Chiesi Group completed the acquisition of KalVista Pharmaceuticals, which constitutes a change in control under our royalty agreement with KalVista. Subsequent to the quarter, we exercised our put option on Ekterly for a total net repurchase price of approximately $178 million, creating a significant and immediate realized return of 1.5X and a high 20s IRR for Unitholders.

Subject to the terms of the royalty agreement, we expect to receive payment by approximately mid-August. While the Ekterly disposition may reduce our portfolio receipts in the near term, on a portfolio level, we expect to benefit from the compounding effects of bringing forward that capital for redeployment, meaningfully creating additional value for Unitholders.

Also in June, we were pleased to see the approval of Viridian's veligrotug, now named Lumvoa by the FDA. With Lumvoa's approval, we made a milestone payment of $75 million to Viridian,

which was partially funded via our acquisition credit facility. This marks an exciting milestone for us, and we will begin earning royalties in Q3 with receipts collected on a one-quarter lag. Together, the Ekterly and Lumvoa outcomes demonstrate our underwriting team's discipline and specialized expertise across the full cycle of an asset, from regulatory approval to realized returns for Unitholders.

Let me take a moment now to share some thoughts on where we stand strategically, because I think it speaks directly to the work this team has done over the past several quarters. As we've discussed on prior calls, we've been deliberate about optimizing our balance sheet and diversifying our sources of capital. That work has put us in a position of considerable strength today. We have a robust balance sheet and a strong liquidity position, and I want to be direct about what that means operationally. We are not constrained by cash at this time. That gives us real flexibility in how and when we deploy capital without being limited by our funding position. It also allows us to participate in meaningfully larger acquisitions than we have done historically.

The second point I'd highlight is the composition of the portfolio itself. We currently have no Phase III approval risk anywhere in the book. Every pre-approval asset we have held has cleared that hurdle, which meaningfully de-risks our forward return profile and is a good reminder of the discipline and unique expertise behind how we structured these transactions from the outset.

Taken together, a strong balance sheet, ample liquidity, and capacity to add pre-approval risk puts DRI in an advantageous position for new deployment. We're actively evaluating a range of assets across the market today, and based on what we're seeing in our pipeline, we expect to complete a transaction in the second half of this year. We'll continue to apply the same underwriting discipline that has served us well, but as we go into this next chapter of deployment, we are doing so from a position of real strength.

To conclude my remarks, given we're at the midpoint of the fiscal year, we believe that we are on track to deliver towards the high end of our 2026 Adjusted EBITDA guidance. Our financial performance year to date, together with the balance sheet work and portfolio de-risking, only reinforces our confidence in achieving our targets as well as further buoying our confidence in the longer-term 2026 through 2030 financial aspirations.

Before I hand the call over, I'd like to take a moment to thank our entire DRI team for delivering another outstanding quarter.

Now let me pass the call over to our Chief Investment Officer, Navin Jacob.

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 second quarter of 2026 compared to the same period in the previous year and the previous quarter. Our portfolio generated Total Cash Receipts of over $46 million, an increase of $6.3 million or 16 percent versus Q2 '25. The increase was driven by several factors.

First, the $3.7 million increase in Orserdu from growing sales in the European market. Second, over $2 million of receipts earned from Ekterly, which as a reminder has no receipts in Q2 of last year. Third, the Xenpozyme milestone payment received in Q2 '26 triggered by the achievement of a certain performance threshold. These increases were partially offset by a $0.6 million decline in Omidria receipts due to declining sales volume as well as a $0.5 million decline in Zytiga receipts due to the generic entry in the European market.

Turning to specific individual product performance, let me start with Casgevy. As a reminder, we already received our entitled annual license fee of $5 million in the first quarter. Our entitled sales-base fee is earned when sales are over $1 billion and as such, we do not anticipate any more receipts for Casgevy in 2026. Performance for the product is strong, and we see two sources of upside relative to our acquisition estimates.

First, on the regulatory front, Casgevy received U.S. FDA approval on July 1 for pediatric patients two and older with severe sickle cell disease or transfusion-dependent beta thalassemia. This label expansion adds roughly 5,500 patients in the U.S. who are now eligible for Casgevy with the first pediatric patient already having initiated therapy.

Second, general performance of Casgevy has been better than our initial expectations. To date, there have been more Casgevy infusions in the first half of 2026 than in all of 2025 with the second quarter representing the third sequential quarter with over 100 patient initiations. Vertex reported Q2’ 26 sales of $76 million for Casgevy. Overall, the product is launching between one to two years ahead of our expectations and as such, we are now confident there is a decent probability of receiving at least one more sales-based payment versus our original underwriting.

Looking now at Ekterly, we recorded Cash Receipts of $2.2 million on Q2 ‘26, which is ahead of our acquisition forecast. To build on Ali's earlier comments, Ekterly represented precisely the kind of asset that showcases the type of disciplined, high-conviction investing DRI can deliver. From the outset, our research identified Ekterly as a compelling opportunity, which at the time of our investment was a differentiated, non-consensus conclusion. The strong, realized outcome is a direct testament to the rigorous diligence process our investment team applies in every decision we make on behalf of our Unitholders.

The recent initiation of a put option allows DRI to crystallize an exceptional return on this investment while providing us with significant flexibility and dry powder to pursue future opportunities with the same conviction. We're extremely proud to have partnered with KalVista and its outstanding management team throughout this journey, and we want to recognize the work they have done in bringing this novel drug to patients. As Ekterly continues its next chapter under the Chiesi Group, we wish the entire Chiesi team unlimited success in the years ahead.

Omidria Q2 ‘26 royalty receipts declined by 7 percent from the previous year. As a reminder, Omidria is on a 60-day lag, and as such, our Q2 royalty receipts reflect a mix of Q1 and Q2 sales. Q2 receipts were in-line with our previously discussed updated estimates. Q2 ‘26 Omidria sales, which exhibited year-over-year growth of positive 9 percent versus Q2 ‘25, was slightly ahead of our updated expectations. Even though we have now seen two quarters of sales growth in the mid-to-high single digit range, we maintain our previously discussed expectation of flat or no growth for annual sales of Omidria over the next few years.

Moving to Orserdu. DRI recorded royalty receipts of $16.6 million in Q2 ‘26, a robust 29 percent year-over-year increase versus Q2 ‘25 due to accelerating sales momentum in the European market. As we have stated before, our acquisition forecast assumes 2025 would represent peak sales given anticipated competitive pressures from other oral SERDs and novel PI3K inhibitors. Performance to date in 2026 has held up better than expected, with Q2 ‘26 sales implying $17.6 million of royalties, which will be paid in Q3 ‘26.

Q3 will be a pivotal marker for the investment, as this is when we will fully recoup our initial capital outlay for Orserdu II, well ahead of our original expectations. Recall we already recouped our initial outlay on Orserdu I a couple quarters ago. As we have discussed before, we are closely monitoring several ongoing Orserdu lifecycle management studies that, if successful, could unlock substantial upside beyond our original acquisition thesis, extending the growth run-rate for this asset even further into the future.

Spinraza Q2 ‘26 cash receipts were down 2 percent year-over-year, mainly due to shipping issues impacting inventory to certain international markets. Biogen reported worldwide Spinraza Q2 ‘26 sales of $402 million, a modest increase of 2 percent year-over-year versus Q2 ‘25, and was in-line with our expectations. Q2 ‘26 sales should translate to approximately $3.7 million of royalty receipts in Q3 ‘26.

Vonjo Q2’26 cash receipts, which reflect Q1 ‘26 sales, rose 11 percent year-over-year, driven by stocking in the U.S., partly offset by order phasing in the international region. Sobi recently reported Q2 ‘26 sales of approximately $34 million, which should translate into royalty receipts of approximately $3.9 million in Q3 ‘26. As a reminder, we revised our expectations downward on Vonjo in Q3 ‘25, and this quarter's results track in-line with the updated forecast, reinforcing our confidence in the reforecast trajectory for the asset.

Sobi has several lifecycle management opportunities for Vonjo, including the PACIFICA Phase III confirmatory study in myelofibrosis with severe thrombocytopenia. Sobi has confirmed that PACIFICA completed enrollment in April, which, if successful, could be used for regulatory submissions of pacritinib/Vonjo in the EU and Japan. Sobi has also indicated that the PAXIS Phase II trial evaluating Vonjo in VEXAS syndrome is also progressing. This indication was not contemplated in our original acquisition forecast.

On Xenpozyme, we recorded $3.3 million of royalty receipts for Q2 ‘26, which is a marked increase versus the prior year, driven largely by strong overall growth and milestone income, as previously discussed. Sanofi reported worldwide Xenpozyme sales of $74 million in Q2 ’26, which is ahead of our expectations.

Turning to Slide 8, as we announced, Lumvoa, formerly known as veligrotug, received FDA approval on June 26, 2026. This milestone triggered a $75 million payment, which we paid to Viridian in Q3 ‘26. Lumvoa pricing is set at parity with the current market leader, Tepezza, on a per-course basis. Thus, the pitch to physicians and patients rests on clinical strength and convenience. Based on key opinion leader feedback, we are confident Lumvoa's launch will be built on real clinical differentiation. It is the first approved therapy with both active and chronic thyroid eye disease data in its label. Furthermore, it has shown rapid proptosis and diplopia responses in both settings.

Lumvoa's treatment is also shorter and more convenient, five infusions over 12 weeks versus a longer, more burdensome regimen for Tepezza. Viridian expects it will take six to nine months for Lumvoa to reach broad access for U.S. patients, with revenue becoming more meaningful as they enter 2027, once a permanent J-code is in place, which is expected to be available by Q1 ’27.

On elegrobart, recall Viridian released topline data from REVEAL-1, a study in patients with active thyroid eye disease, also known as TED. During Q2, Viridian released positive topline results on REVEAL-2 in patients with chronic TED. The chronic TED data were slightly better than our expectations and perhaps a more relevant data set when considering the potential for elegrobart. Chronic TED is a highly under-penetrated market. Thus, REVEAL-2 provides Viridian the opportunity to fully maximize elegrobart's potential as the first true subcutaneous autoinjector in the market. In summary, our outlook for elegrobart and, of course, Lumvoa remains very positive.

In closing, I'd like to touch on thoughts regarding the market and our positioning for 2026. It has been DRI's strong belief that royalty financing would become a more common or mainstay method of raising capital. Our thesis appears to be materializing. During the second quarter of 2026, despite more than 60 equity deals across the United States and Europe for a total of $16 billion raised by biopharma companies, we tracked at least eight royalty deals for a total of approximately $1.7 billion in announced value.

On a trailing twelve month basis, the size of royalty deals is at least $5.3 billion, roughly flat versus the same period ending in Q2 ’25, despite a robust rebound in the biotech equity capital markets. Biopharma boards and management teams are recognizing the value creation that royalty financing can provide to the ecosystem.

I will now turn the call over to Zaheed Malwani to review our second quarter financial performance.

Zaheed Mawani - DRI Healthcare Trust - Chief Financial Officer

Thank you, Navin.

Turning to the second quarter results, our total income was $50.1 million, an increase of $5.9 million or 13 percent year-over-year, primarily driven by higher royalty income led by Ekterly, improved performance from Vonjo, Omidria, Xolair, and the receipt of the milestone income from Xenpozyme. These were partially offset by Orserdu as well as Rydapt due to an expected step-down in sales.

Turning to expenses, our total expenses were $40.9 million, approximately $2 million lower versus last year. This was primarily driven by internalization synergies, including the elimination of performance fees, lower compensation, as well as lower deal investigation and research expenses, lower unit-based compensation, and lower other operating expenses. These were partially offset by higher amortization of intangible royalty assets, higher interest expense, as outlined earlier in Ali's comments, and higher G&A.

We also recorded $3 million of income tax expense in the quarter. When we internalized our management function last July, some of our subsidiaries became subject to income tax for the first time. 2026 is our first full year carrying tax through the P&L. Quarterly amounts will move as we settle our full-year position. Notably, there's no impact to Adjusted EBITDA, cash receipts, or our distribution. All in, our Adjusted EBITDA for the quarter was $42.6 million, which increased $12.2 million or 40 percent over the second quarter last year. On a rate basis, our Adjusted EBITDA margin was 92 percent versus 76 percent in the second quarter of 2025.

Cash receipts for the quarter were $46.5 million, an increase of 16 percent year-over-year. The increase was driven primarily by the higher cash receipts from Orserdu due to growing sales in the European market, the inclusion of royalties from Ekterly, and the Xenpozyme milestone. The increase in cash receipts was partially offset by a decline in Omidria cash receipts due to lower sales volume and lower Zytiga receipts due to generic entrance deteriorating market share in the European market. We generated Adjusted Cash Earnings per Unit of $0.56, and we announced last Friday our quarterly distribution of $0.11 per Unit, which will be paid on October 20, 2026, to Unitholders of record on September 30, 2026.

Turning to Slide 12, we continue to generate strong cash flows from our assets. Over the last twelve months ending June 30, 2026, we recorded total income of $209.2 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 $199.1 million. After adjusting for all other operating expenses, Adjusted EBITDA was $178.3 million, with a trailing twelve month Adjusted EBITDA margin of 90 percent. We also generated Adjusted Cash Earnings per Unit of $2.56.

Moving to Slide 13. As of June 30, we had $55.2 million of cash and cash equivalents. We also had $54.7 million of royalties receivables and $520 million of credit availability from our bank facilities. We continue to be well-capitalized and well-positioned to fulfill any prospective milestone commitments as well as continue to invest in new assets.

We continue to allocate a portion of our capital towards Unit buybacks. 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.

During the three months ended June 30, 2026, the Trust acquired and canceled approximately 90,000 Units at an average price of $11.65, totaling $1 million. As of June 30, 2026, in aggregate, we have acquired and canceled 4.8 million Units at an average price per Unit of $7.23, totaling $34.6 million under all current and previous NCIB plans. From July 1, 2026, to August 7, 2026, there were no Units acquired under the May 2026 NCIB plan under the AUPP.

That concludes our prepared remarks. And with that, let us open the call to questions.

Operator

Thank you.

Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press the star key followed by one on your touchtone phone. You will hear a one-time prompt acknowledging your request. Your question will be polled in the order they are received. If you would like to decline from the polling process, please press the pound key. Please ensure you leave the handset if you are using a speakerphone before pressing any keys.

One moment, please, for your first question.

Your first question comes from Douglas Miehm with RBC Capital Markets. Please go ahead.

Doug Miehm - RBC Capital Markets

Good morning, everyone. First question just obviously has to do with deal pipeline capital deployment. Maybe you could walk us through, given the amount of capital that you have available to deploy now, could we see a larger deal than we have seen in the past, let us say plus $200 million upfront and then added milestones? The second thing is with respect to that, just as it relates to seller expectations, competitive landscape, are you noticing any changes in that market today? Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Hey, Doug. It's Ali. Hope you're well.

Look, I'll take it at a very high level and then I think Navin will probably have some comments as well. We don't think it's super productive to discuss specific deals in the pipeline. I think what I would say at a high level is we still expect a transaction in the second half of the year. I think, as it pertains to your question on the liquidity, it obviously does open up a range of options for us that were not available before. I think some of those options could be larger transactions. I think it could be multiple transactions of the size that we had done in the past.

I think if you think of a sliding scale on that, on the larger end, we would be somewhat constrained on the financing side by cash flow generation. So, the larger the transaction gets, probably the more cash flowing it needs to be immediately. But I think on the regular way side, the types of deals that you have seen us do over the past little bit with Viridian as the most recent example, we could certainly do more than one of those in the next twelve months and easily be able to fund it with the liquidity that we have right now.

I think directionally we're looking at everything available to us, but I would certainly expect the cadence of deployment over the next, let's say, 12 to 18 months to be higher than usual, just given our liquidity position.

Doug Miehm - RBC Capital Markets

As a follow up, we noticed in your disclosures and with Ekterly leaving the portfolio that the expected royalty expiry for the Viridian asset has changed quite significantly from Q4 2042 to Q2 2036. Can you perhaps walk us through why that change was made and then also what that means for the overall duration of the portfolio, having lost Ekterly and then making this change with respect to that asset? Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

I'll break it up in two parts. I think Ekterly in isolation is obviously a duration-reducing effect. It's one of our longer duration assets. Just stating the obvious, losing one of your longer duration assets, albeit a very attractive outcome for Unitholders, mechanically does reduce duration. I think really the story with Ekterly is the fact that we're bringing forward this large amount of proceeds and we're able to compound it through redeployment.

I think when you think of the range of outcomes on that redeployment, they're all super accretive to us. We certainly are approaching it with a balance of an eye to duration as well as other characteristics. But at the same time, we don't feel a need to target a certain duration like we did, let's say, 36 or 48 months ago when I think the portfolio duration was meaningfully lower and we were sort of chasing that endpoint a little bit harder.

I think we'll take a balanced approach to it. But what I would focus on with regards to the Ekterly deal is really that compounding effect of bringing that money forward and redeploying it. With regards to Viridian, and Navin, I think you may want to jump in here. I think what you're seeing there is the veligrotug duration and not the VRDN-003 duration, which obviously we are not approved on yet. I think probably that's the accounting twist, but I might be wrong there.

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

That and plus potential for achieving the cap associated with the deal. With regards to, I'll just go back to—and this touches on both your first question and your second question, Doug, but it speaks to the pipeline, our ability to redeploy, the cash coming in. You're right. Obviously, we're losing a revenue stream with Ekterly, but it was done in a value accretive way, obviously, to Unitholders given the 100 percent realized return that we got on Ekterly at an annualized IRR of high 20s. The cash coming in as we redeploy that, that compounding effect can be quite a dramatic impact for Unitholders.

One very clear example of that that DRI has conducted already was with TZIELD. Obviously, that was a great outcome for Unitholders. We took those proceeds and invested it into Orserdu, twice with Orserdu I and II, and both those have now recouped their initial investments in record time. Obviously that product is doing extremely well. That compounded effect for Orserdu that Unitholders are enjoying as a result of us taking in the capital and redeploying it into a high-quality asset is very powerful, and we hope to do the same again here with the sale of Ekterly and value accretion there.

Operator

The next question comes from Louise Chen with the Scotiabank. Please go ahead.

Louise Chen – Scotiabank Capital Markets

Hi. Congratulations on all the progress, and thanks for taking my questions here.

I wanted to ask you, when it comes to deals, are there any therapeutic areas that really interest you the most? Then secondly, we always get asked this question, so I thought I would pose it to you, which is, what are the competitive advantages that you have when it comes to deal sourcing and diligence? Thank you.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Louise, hi. I think on the buildup of what therapeutic areas we look at, it's really a function of our overall criteria rather than, let's say, selecting a therapeutic area per se. We're really focused on therapies that have a meaningful impact on patient well-being, on extension of life, on quality of life. We really try to avoid areas that might have a cyclical component to them or a discretionary component to them. We're very conscious of certain aspects of regulatory risk and competitive risk.

When you start to Venn diagram the types of things that we're looking at or try to avoid and build up the overlaps there, it naturally leads you to certain therapeutic areas. It naturally leads you towards areas like oncology or autoimmune or some of the other areas that we've been involved in in the past. But it's not that we're necessarily selecting for those. It's that those areas are sort of an outcome of the overall guidelines that we put on the investment process. I think on your second question, I don't know, Navin, if you have a strong view there, I'll probably turn that one over to you.

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

With regards to research and sourcing, Louise, we are a research-driven organization. That is how we've always acted. Sourcing is a function of that. It touches a little bit on your first question, actually, which is that the research drives the assets that we're interested in, and then that turns into sourcing. As part of the sourcing effort that we then make, there's almost a feedback loop into, not sort of, there's absolutely a feedback into our research, which then feeds into sourcing.

What do I mean by that? As we're conducting our research, we do a broad landscape, which is a combination of sourcing and research. We find therapeutic areas, assets that we're interested in. We dig a little deeper, and sometimes we cast out assets we're interested in. More often than not, we're casting out assets we're interested in, but we may stay in the area that we found interesting, and then that'll feed more research, which will then feed the sourcing. We make outreaches to the various parties that we're interested in working with. Its always research driven.

What that leads to, then, from a therapeutic area standpoint and what areas we go into versus not, is then what often happens is we are somewhat allergic to sort of a consensus view and what the hottest trend is. We're consistently asked about GLP-1s and GLP/GIP agonists. That's an area that is obviously white-hot, and we tend to stay away from those areas. One, because they're super competitive. Two, because valuation expectations are probably outsized, particularly amongst the type of players we would be working with.

We tend to focus on areas that are a little bit less under the microscope of the general public. One key example is TZIELD, and another is Ekterly. At the time, if you go back and read the analyst reports on KalVista and Ekterly, there was a lot of, let's call it, non-belief in the peak sales of Ekterly and that launch and that team, and we had a very counter-consensus view there. We were very excited about it, and we went all in there. Same exact thing for TZIELD, very limited expectations around Type 1 diabetes. Everyone was focused on Type 2. Both those outcomes ended up well. We've historically done well when we're focusing on areas that are outside of a consensus view.

Ali Hedayat – Chief Executive Officer, DRI Healthcare Trust

Louise, I'll just throw in one last thing there, which is I think one of the things that is as important as what we source in terms of the individual opportunities is how we structure it. I think that's another area where the team really has extraordinary edge. You saw that play out in Ekterly. I think the Viridian structure is a similar example to that.

When you think about sourcing edge, really that intersection between the research capacity of the team and the ability to structure solutions that are really super well-suited both to our needs and to the counterparty needs is something that we think is relatively unique about our platform.

Operator

The next question comes from Michael Freeman with Raymond James. Please go ahead.

Michael Freeman - Raymond James Ltd.

Hey, good morning, Ali and Navin and Zaheed.

Congrats on all the important catalysts you stepped through in the last several months. I wanted to ask about Orserdu, and this is such a key part of the portfolio, at least right now. I wonder if you could help us set the landscape for key inflections that we might be looking out for, either from Menarini Group or from competitors, on-market competitors for Orserdu, looking for key trial readouts that we should be monitoring.

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

Sorry, I was on mute there. Apologies. It's a good question, Michael. There are several trials that are in the space from other oral SERDs. Obviously, lidERA from Roche with giredestrant has played out. That was positive. There are three other competitor trials, the CAMBRIA-1 study of camizestrant from AstraZeneca, the CAMBRIA-2 study of camizestrant, also from AstraZeneca, and then the EMBER-4 study of imlunestrant from Eli Lilly, and then obviously ELEGANT, which is Menarini's trial of elacestrant or Orserdu.

The Orserdu study reads out in 2028, 2029, right around that timeframe. But before then, you will see data from CAMBRIA-2 likely next year. CAMBRIA-2, in our opinion, is probably the most similar to Sorry, excuse me. CAMBRIA-1, which is most similar to ELEGANT. Again, just to be clear, the CAMBRIA-1 study of camizestrant run by AstraZeneca, which reads out in 2027, is most likely and most similar rather to the study being run by Menarini called ELEGANT of Orserdu.

What is CAMBRIA-1? CAMBRIA-1 is a study in the extended adjuvant therapy for ER-positive, HER2-negative early breast cancer with intermediate or high recurrence risk in patients who have received roughly two to five years of standard adjuvant therapy, endocrine therapy. In that, with ELEGANT and elacestrant, they are focused on the same exact population as CAMBRIA-1 with a slight twist. It is only focused on the high recurrence and not the intermediate recurrence patients.

What that means is it's a smaller population. However, there are more events in that population, it allows for a better chance of an efficacy signal being seen in terms of the statistical plan. Based on the outcome of CAMBRIA-1, if you look within a sub portion of CAMBRIA-1, probably roughly half of the CAMBRIA-1 patients, you should look at the forest plots and look at the efficacy signal

in the high recurrence patients. You will have a very good view of what ELEGANT might look like for Orserdu. That CAMBRIA-1 study, again, reads out in 2027. That gives you an early peek into how the ELEGANT study may read out.

There's almost a semi-catalyst next year for Orserdu through the CAMBRIA-1 study. Obviously, we, at the time of our acquisition, had built in zero for adjuvant because it was an untested hypothesis of oral SERDs in that adjuvant setting. It's different biology. We have some signal in the adjuvant setting through the lidERA study. Let's see CAMBRIA-1 in 2027. That'll give us an idea of what ELEGANT might look like.

Michael Freeman - Raymond James Ltd.

Thank you, Navin. That is exactly what I was looking for. Okay, next. I wonder, on Ekterly and the return of that royalty, the payment is looking to come, I guess, by the end of this month. At what point would you undertake...

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

We just received it this morning.

Michael Freeman - Raymond James Ltd.

Congratulations. At what point would you undertake to adjust your fiscal 2026 guidance on, especially on EBITDA, just given the removal of this, of the receipt of these royalties?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Look, I think we're tracking, as I said on my earlier remarks in the call, we're tracking really well against our 2026 guidance. We think even inclusive of the removal of these royalties, we're going to be at or above the higher end of what we got it to at this point.

Michael Freeman - Raymond James Ltd.

Okay. Excellent. If I could just sneak one more in. On the deal sourcing workflow, I wonder if you could give us a sense of what proportion of deals in your pipeline resulted from inbound requests to DRI versus outbound requests to the counterparties.

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

I think we're just going to—its just not particularly—that particular metric is not necessarily helpful. We get a lot of inbounds, particularly for some reason in the summer. We do have a lot of inbounds. We have a lot of outbounds. I'm not sure it's particularly productive to go into that breakdown at this moment.

Michael Freeman - Raymond James Ltd.

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

Operator

Thank you. The next question comes from Justin Keywood with Stifel. Please go ahead.

Justin Keywood - Stifel

Good morning. Thanks for taking my call. On the exceptional margins in the quarter, 92 percent EBITDA, there was a view of re-investing some of the internalization benefits expressed the last quarter and that we should not expect EBITDA margins at this level. Does that view still hold for the back half of this year? Or is there any other particular structural changes as far as the cost levels going forward that we should consider?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Yeah. The margins outperformed our own expectations a little bit. I think that was really a function of two things. A little bit the timing of some of the additional re-investment that we've spoken about earlier in the year. Also, and I think this is an important point, the outperformance on revenues. I think the outperformance on revenues goes to what we've been saying about the difference between our pre- and post-internalization financial model, because the incremental margin on that outperformance is extremely high. It's pretty close to 100 percent, right? As we outperform on the revenue side, those outperformance dollars drop down to the bottom line pretty much dollar for dollar. I think that's a portion of the margin beat as well.

As we roll through the year, we intend to keep re-investing into the team and into tech and other areas that have been, I think, a source of productivity and will ultimately feed into our topline growth. That said, if we keep outperforming on the revenue line, the benefit of that

outperformance will keep margins above what we thought they were going to be earlier in the year. That's just the math of it.

Justin Keywood - Stifel

Okay. That's very helpful. Then my second question is on the share buyback. The buyback was active at a much lower share price level, although there continues to remain a wide discount with DRI's valuation versus certain peers. With the cash proceeds expected to come in, is the share buyback capital allocation tool that we should expect being utilized going forward in addition to what is described as a very active M&A pipeline?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

It is. We intend to remain active on the buyback. It's not something we think of on a daily sort of day trading basis. We have a look at the ranges that we think it's appropriate to buy back stock at about once a quarter. We look at distribution about once a year. We recalibrate those accordingly when we think it's appropriate.

You should continue to see us return capital to investors in-line with the growth in the business on an underlying basis with regards to value via the buyback and on a cashflow and earnings basis via distribution growth. Both of those are levers we continue to believe are appropriate to pull. We're certainly not in a position where we have to choose between shareholder returns and capacity for investment at this point. We have a lot of liquidity. It's not something that even crosses our mind as a trade-off.

Justin Keywood - Stifel

Understood. Thank you.

Operator

Thank you. The next question comes from Tania Gonsalves with Canaccord Genuity. Please go ahead.

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

Good morning, guys. I think most of my questions have been asked here. Just one for me. With respect to the Ekterly outcome, does it change how you think about the economics of pre-approval royalties, specifically when underwriting these assets? Do you assign any value to the probability of a post-approval strategic acquisition and potential early royalty repurchase? Do all of your deals include these change of control or repurchase provisions in them? Or is it mostly just the pre-approval assets?

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

Two things there. Sorry, go ahead, Ali. Go ahead, Ali.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

No, no, Navin, you go ahead.

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

Two things, Tania. Just on risk, every single asset, every single deal that we work on has a different risk profile. We don't go into these things saying X looks just like the other one, and so the probability—we have risk parameters and investment criteria that are fixed, but that is a minimum, minimum, not a maximum or a mean, right? That's a minimum amount of—or when I say minimum, I mean that's a—there is a high bar for every single asset. I kind of actually meant it the other way, which is that you have to cross a hurdle with every single one of our investment criteria and every single one of our risk parameters.

One of the things that Ali has brought to the table in a very robust manner is institutionalizing that and being able to look at all of those risk parameters, all of the investment criteria on a portfolio-level basis and not just at the individual asset basis. Those are high bars across all the different various criteria we have, and we've always had to institutionalize at the asset level what Ali has provided, has brought to the table in an extremely powerful way is tying it all together so we can look at the entire portfolio.

Then with regards to—and just to dig into that a little bit more, whether it's—so the idea that the outcome of Ekterly would affect how we look at returns in a pre-approval asset, absolutely not, because that would—that's effectively what you're saying leads to—can lead to thesis creep.

We would never view the hypothetical potential outcome—take out of a product as a reason to change our investment criteria or our risk parameters. That is not the way we run our organization. It would deteriorate our risk parameters. Does that answer your question? I'm sorry if I missed the second part of your question.

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

No, no, that adequately answers it. Thank you.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

I guess one thing I'd just throw in there, obviously—and this is a relatively obvious statement—if we are sort of in the business of pre-approval transactions, which we are, many of those companies do not want a royalty agreement to act as a poison pill.

On that segment of our transactions, you might see some of this written in on an idiosyncratic basis. It's not something that is a boilerplate structure for us. It's very customized to whatever the Company's needs are or where they are in terms of their corporate objectives. But it is something that, as we do more and more pre-approval, the likelihood of some frequency of those type of clauses in the contract goes up, right? Which is not to say that they will get triggered and it's not to say that the companies will get bought or anything like that. But certainly, it is a feature of pre-approval transactions directionally.

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

I just want to add to that what Ali noted is super important because that is part of what distinguishes DRI. Every single one of our deals is highly bespoke. We don't go into these with a template-like approach. There is a template-like approach to our risk structure and our investment criteria, but those are minimums or rather that is a hurdle that is high that has to be achieved. But beyond that, each deal is completely different from the other one.

It's entirely dependent on what our partners are trying to achieve. We have needs that we have of ourselves to ensure that we're creating value for Unitholders. That's the difficult part, is trying to bridge the highly customized—using a highly customized solution to bridge the needs of our counterparties and us in order to create a win-win solution.

Tania Armstrong-Whitworth - Canaccord Genuity Capital Markets

Thank you. That's all for me.

Operator

Thank you. The next question comes from Ash Verma with UBS. Please go ahead.

Di Zhao - UBS Securities

Hey, good morning. This is Di on behalf of Ash.

Thanks for taking our question. I have two. The first one on the Viridian assets, Lumvoa. I think Viridian did not provide specific patient enrollment forms, which seems to be raising some questions. We understand this is still very early in the launch right now, but I guess what's your sense of patient uptake for 2026 and 2027? I guess based on prior analogs that you have looked at.

My second question, can you talk about what percentage of your investment currently on assets that are in the clinical stage as opted to approve the product? Then what type of IRR are you looking for in those two segments? I guess gradually is your goal to increase NICs towards the clinical stage assets? Thanks.

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

I can take both of those. On Lumvoa and Viridian, you have to remember it got approved literally at the end of Q2, right? For them to be speaking about patient uptake at this stage is entirely too early. With regards to analogs, we've said this in the past. I'll say it again. This is not going to be an extremely quick uptake. On the other hand, it's not going to be a super slow uptake. I think we said with TZIELD that it's going to be a very slow uptake, which has played out, by the way, if you've been following that asset. But it's going to be somewhere in between.

Part of what has to happen, remember, there are a lot of Medicare patients in this population. Part of what has to happen is there has to be some time, call it three quarters or so, of reimbursement that has to be put in place in order for uptake to really start to move Lumvoa. But after that, you'll start to see the product move quite a bit. There is no doubt that this is a differentiated asset. Hopefully, you've done some channel checks on that yourself. We feel very strongly that this is a differentiated asset, both from an efficacy standpoint and a convenience standpoint. I made some comments as much in the prepared remarks.

Then, with regards to the pipeline and the breakout of pre- or post-approval, we've already discussed numerous times our move into the pre-approval setting and potentially Phase III financing. That should not come as a surprise. We are looking to do that. Obviously, pre-approval and then Phase III requires a higher return for us to be involved. That's obvious. But if it's not, I'll be very clear. Our return metrics are going to be higher the earlier we get in the development cycle. The mix of pre-approval or post-approval; we're not discussing that at this stage. It's just not productive as we have several things in the pipeline that we're working on.

Operator

Thank you. We have time for one more question.

The next question comes from Nathan Po with National Bank of Canada Capital Markets. Please go ahead.

Nathan Po - National Bank Capital Markets

Hi. Good morning. Thanks for taking my question. On the point of mix of pre-approval and post-approval assets, we did see that you introduced two new Board members bringing in wealth of science and healthcare experience. Does this foreshadow any future intent further down the line to eventually broaden the pipeline to include assets that are earlier in their developmental stages, potentially even Phase II?

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Look, we're really excited about those new Board members. I think they bring a lot of perspective across the range of expertise that they have and a lot of relationships as well. I think, look, our goal as a business is to continue to expand our impact and footprint in a profitable and risk-managed way across the ecosystem of drug development. I think over time, as we get a broader and broader footprint, you may see us expand to earlier stages. I think that is still something that we're thinking about internally in terms of how to measure out the risk return and sizing considerations and all of that. We're pretty happy with the existing strategy that we have in Phase III assets.

But I think if you were to think about DRI in 10 years, I think the intention is certainly to be a much more full service investor across the spectrum of drug development and able to provide solutions in many different ways for our counterparties. I think as long as that is done in a risk-managed and correctly metered way with regards to required returns, we should definitely have

a look at it. As I said, not on the agenda for tomorrow, but also not something that we would turn our back on in terms of staying on a binary basis. It's out of consideration.

Nathan Po - National Bank Capital Markets

Thank you very much.

Operator

Thank you. There are no questions at this time. I will now transfer the conference over to Ali Hedayat, CEO, for closing remarks. Please go ahead, sir.

Ali Hedayat - Chief Executive Officer, DRI Healthcare Trust

Thank you, Operator.

DRI team, great job. Keep doing what you're doing. We'll keep moving forward because of it. Everybody else, thank you very much for joining us today. We look forward to speaking to you on our next quarterly results.

Operator

Thank you.

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating.

Please disconnect your lines.