DRI Healthcare Trust

2026 Third Quarter Earnings Conference Call

November 5, 2026 — 8:00 a.m. E.T.

Length: 51 minutes

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PRESENTATION

Katherine Rebejko — Head of Investor Relations, DRI Healthcare Trust

Good morning, everyone. Welcome to DRI Healthcare Trust's 2026 third 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 in making forward-looking statements, please consult the MD&A for this quarter, the Risk Factors section of the Annual Information Form, and DRI Healthcare's other filings with Canadian securities regulators. DRI 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 US dollars.

I want to remind everyone that this conference call is being recorded today, Thursday, November 5, 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, Ali.

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

Thank you, Katherine, and good morning, everyone. 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. Today I will recap the quarter, touch on our year-to-date performance, and comment on our outlook; Navin will then cover the portfolio and market; and Zaheed will cover financial highlights before we move on to Q&A.

The third quarter was a defining one for DRI. We reshaped our portfolio and laid the foundation for future growth, monetizing Ekterly and redeploying the proceeds into Juvmo, our largest transaction to date, while continuing to deliver year-over-year growth in cash receipts and adjusted EBITDA dollars. The achievements of the team over the course of this year will let us enter 2027 with a meaningfully higher multi-year growth trajectory and the flexibility to expand our deployments, both in scope and in size.

Normalized total cash receipts were up 9% year over year and adjusted EBITDA of $40 million was also up 9% for an adjusted EBITDA margin of 84%. Royalty income declined 2% as we cycled the one-time favourable Xolair adjustment from last year with continued softness from Zejula and the disposition of Ekterly early in the quarter, creating a roughly $3 million headwind between them. These were partly

offset by a $1.85 million payment from Lumvoa's first royalty. Excluding those items, royalty income from our core assets grew 3% in the quarter and 8% year to date with Lumvoa now layering on top of that base.

A brief comment on the margin. The third quarter follows the same seasonality we see every year. Several of our larger royalties, including Casgevy and certain milestone payments, landed in the first half while our expense base is largely fixed across the year. In addition, we had certain compensation true-ups that we took in the quarter to reflect our better-than-expected performance year to date, which Zaheed will discuss in more detail. Our year-to-date margin is 89%, in line with our long-term targets.

There are two other items that I would like to highlight. First, we recorded a non-cash impairment of $14.6 million on Zejula, reflecting continued softness following the FDA label restrictions and increased competition. While disappointing, I would remind you that we never write up assets when they outperform, so we believe that our book value continues to understate what the portfolio is worth to us as it only incorporates negative revisions while outperformance flows solely through our operating lines. Across 29 royalty streams with durations of a decade or more, some assets will underperform while others like Ekterly, Orserdu, and Casgevy materially outperform. In aggregate, the portfolio is well ahead of where we underwrote it.

Second, our interest expense was $8.5 million, down 17% year over year. Some of that reflects the timing of paydowns and draws given the Ekterly proceeds received in August and the draw to fund Juvmo in September. We are also benefiting from the various actions taken earlier in the year to reduce our cost of debt. We currently expect quarterly credit facility interest expense of approximately $4.3 million in the fourth quarter, which is well below last year and reflects that lower blended cost of debt. The benefit of

this lower-cost funding structure carries through all of our balance sheet and widens the spread on every dollar that we deploy.

Stepping back to recap our year to date, the business is performing ahead of the high end of our expectations which underpin the 2026 guidance given at the start of the year. Total income is $145.6 million, up 6%. Normalized total cash receipts are $152.3 million, up 4%. Adjusted EBITDA is $135.3 million, up 14% for a margin of 89%. In addition to strong core portfolio performance, we have demonstrated exceptional underwriting, delivered tangible benefits from restructuring our balance sheet and cost structure, and have been laser-focused on cost discipline across the board.

Briefly touching on the two transactions in the quarter, in July we exercised our put option on Ekterly and in September we deployed that capital and some additional debt capacity into Juvmo. Those contracted payments fund the longer-dated assets that we want to add next. Over the next 12 months, our focus is towards using the space opened up by the strong cash flows provided by Juvmo to acquire longer duration pre-approval assets. This reflects our prior comments about DRI now being well situated to focus on aggregate portfolio structure considerations and we will see an opportunity to bring in some assets that will rebalance our duration and provide high, risk-adjusted returns. We will continue to structure these pre-approval deals in ways that reflect prudent risk management through the use of structures like the various milestones in our Viridian portfolio.

Our pipeline is deeper than at any point since the IPO with our step out into earlier-stage assets broadening the range of transactions that we can do. We have now taken four pre-approval assets through to approval, Vonjo, Ekterly, Lumvoa, and Juvmo, each structured to protect unitholder capital while

preserving the upside. The thread which those deals have in common is the strength of our research-driven approach. DRI is a research-based organization and we have invested deliberately in those capabilities. We continued to expand the breadth of our team's capacity with two exciting senior-level hires in this year. That continuing investment is what allows us to see the value in each of these assets early, underwrite them with conviction, and bring them across the line ahead of a competitive market.

Turning to capacity, we came into 2026 with an aspirational deployment range of $800 million to $1 billion through 2030 and we have deployed roughly $400 million this year, including Juvmo and Lumvoa. Because Juvmo is highly cash generative and Ekterly returned $176 million, our remaining investment capacity through 2030 remains roughly unchanged versus the previously announced deployment targets, even after factoring in this year's deployment, which means that our capital deployment over 2026 to 2030 is now expected to come in above the multi-year aspiration we previously communicated. That capacity is funded by operating cash flows and incremental debt capacity without relying on equity issuance or another monetization event. We continue to pursue a balanced capital allocation strategy, including buybacks of units and a growing distribution, but royalties remain the highest value use of our capital.

Finally, turning to the outlook, as I mentioned, we are tracking above the high end of our 2026 adjusted EBITDA guidance of $157 million to $162 million with no further transactions assumed this year. Looking beyond this year, Juvmo on its own allows us to hit or exceed our previously announced aspirations for adjusted EBITDA through 2030 before the impact of any further deals, and with the deployment capacity I just described, we expect our adjusted EBITDA CAGR aspirations for the same

period to meaningfully exceed the prior ranges we communicated. We will provide more colour on updated long-term targets on the fourth quarter call.

Before I hand over, I want to thank the entire DRI team for another quarter of exceptional execution. Now let me pass the call over to our Chief Investment Officer, Navin Jacob.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Thank you, Ali.

Touching first on our portfolio performance, slide seven shows the individual royalty receipts for the third quarter of 2026 compared to the same period last year and to the prior quarter. Our portfolio generated total cash royalty receipts of $47.5 million, an increase of $3.8 million or 9% versus Q3 2025. The increase was driven by several assets, including Omidria, Orserdu, Xolair, and Ekterly, which had a final receipt of $2 million. These increases were partially offset by a $0.7 million decline in Zejula receipts following the FDA label restrictions and a $0.5 million decline in other products, which reflects the expected runoff of our older, fully amortized royalties.

Turning to individual products, let me start with Casgevy. As a reminder, we received our $5 million annual license fee in the first quarter and do not anticipate further receipts in 2026. Casgevy's ramp, however, continues to run one to two years ahead of our acquisition expectations and we remain confident there is a reasonable probability of receiving at least one sales-based payment beyond our original underwriting.

For Orserdu, DRI recorded royalty receipts of $17.6 million in Q3 2026, up 4% versus Q3 of 2025 and in line with what we signaled on our last call. Q3 also marked an important milestone we flagged in August. We have now fully recouped our initial capital outlay on Orserdu II, well ahead of our original expectations, having already recouped Orserdu I earlier this year. Importantly, Menarini's Q3 2026 sales imply approximately $19 million of royalties payable to DRI in Q4 2026. As we have said before, our acquisition forecast assumed 2025 would be the peak year for Orserdu given anticipated competition from other oral SERDs and PI3K inhibitors. Although 2026 has continued to hold up better than that assumption, the next six months is when competition will truly ramp up and so we are not changing our view that 2027 onwards likely will see declines. To be clear, this was fully expected in our acquisition forecast. As we have noted before, life cycle management studies in combination trials for second-line metastatic HER2-negative ER-positive breast cancer and monotherapy adjuvant HER2-negative ER-positive breast cancer could provide meaningful upside to our acquisition forecast.

On Omidria, Q3 2026 royalty receipts were $9.2 million, an increase of 10% year over year. As a reminder, Omidria is on a 60-day lag, so our Q3 receipts reflect a mix of Q2 and Q3 sales. Though Omidria has experienced several quarters of strong year-over-year growth in 2026, recall 2025 underperformed, making for an easy comparison. Thus, given a mixed history with this asset, we maintain our expectation for flat sales for the next few years.

Spinraza Q3 2026 cash receipts were $4.2 million, up 12% year over year and ahead of the roughly $3.7 million we guided to in August. Biogen reported Q3 2026 Spinraza sales of $461 million, up 23% year over year driven by rapid conversion to the new high-dose regimen, which Biogen said is exceeding its expectations in every launch market. With that said, Q3 sales include some inventory stocking of the new

high dose, so we would not extrapolate the aforementioned growth rate. Still, the Q3 sales should translate to approximately $4.8 million of royalty receipts in Q4 2026. The high-dose regimen was not in our acquisition forecast and Spinraza continues to track ahead of our expectations.

Vonjo Q3 2026 cash receipts, which reflect Q2 2026 sales, were $3.8 million, up 9% year over year. Sobi reported Q3 2026 Vonjo sales of approximately $31 million, which is a 4% decline year over year. Sobi noted that international phasing affected sales in the quarter. Overall though, sales year to date are in line with our updated forecast, which was set in 2025. Sobi is investing in life cycle management with two potential expansions for Vonjo. First, FDA granted fast track designation to Vonjo in VEXAS syndrome with PAXIS Phase 2 data expected in 2027. And second, Sobi expects PACIFICA Phase 3 confirmatory data in 2027, which, if successful, would support EU and Japanese submissions. Neither was in our original acquisition forecast.

Xolair receipts of $4.7 million were up 23% year over year on stronger underlying sales. The royalty income line for Xolair is down this quarter due to a tough comparison versus Q3 2025, which benefited from a one-time favourable adjustment. Xolair continues to grow across all three indications and in food allergy has now treated over 145,000 patients, up from 130,000 last quarter. Roche continues to reiterate its 2026 guidance of approximately 20% growth despite the biosimilar launch and has guided to flat revenue in 2027. Given the two-quarter lag on royalties, Q3 2026 sales should translate to approximately $2.6 million of royalty receipts in Q1 2027.

On Xenpozyme, there were no receipts this quarter, consistent with the payment schedule. The next receipts are expected in Q4 of 2026. Sanofi reported worldwide Xenpozyme sales of $72.5 million in Q3 2026, up 9% year over year. Xenpozyme continues to perform ahead of our expectations.

Finally, on Zejula, Ali has covered the impairment, so I will limit my remarks to the product. GSK reported US Zejula sales down 24% year over year in the quarter, setting the FDA label update and new prior authorization requirements, and our Q3 receipts fell 59% to $0.5 million. The label restrictions in the first-line maintenance setting have narrowed the eligible population more than we originally forecast and the PARP inhibitor competition has intensified. Our revised forecast now assumes declining receipts through the remaining royalty term. Zejula represents roughly 1% of our cash receipts.

Turning to our newest assets, starting with Juvmo, following FDA approval on September 25th, our transaction closed four days later and AbbVie has confirmed the launch is underway. Our first royalty receipt is expected in the first quarter of 2027. AbbVie has said that approval timing means Juvmo missed the window for 2027 Medicare formulary placement and that it expects a slower initial ramp, but as we have noted before, we fully anticipated this in our acquisition forecast. Importantly, the four fixed annual payments totaling $93.75 million, the first of which is due in September 2027, means our near-term cash flows do not depend on the fast first year launch.

Turning to our Viridian deal, DRI recognized $1.85 million of royalty income for Lumvoa during Q3 2026, which is our first quarter of income from the asset. Viridian's early launch indicators are consistent with the demand we underwrote, although recall the first few quarters will be slow until full reimbursement is achieved. Our second asset in the deal, elegrobart, remains on track for a Q1 2027 BLA

submission. Recall we have $130 million of milestone obligations to Viridian and our outlook for both assets remains positive.

In closing, I'd like to touch on the market and our positioning. Our long-held view has been that royalty financing would become a mainstay source of capital for biopharma and 2026 has continued to bear that out. During the third quarter, we tracked at least eight royalty deals for a total of approximately $1.2 billion in announced value alongside more than 53 equity deals across the United States and Europe, raising roughly $9.4 billion. Against the broader industry backdrop as well as increased medium-term capacity, we have expanded our actionable pipeline from roughly $3 billion to $4.5 billion.

We have consistently noted that we have a large pipeline that was only limited by capacity. Three factors have reduced these limitations. First, the private placement; second, the conversion of the preferred securities; and third, the Ekterly monetization. Together, that balance sheet work has given us the capacity to pursue larger transactions and the pipeline now reflects opportunities that were previously outside our reach.

Given our large pipeline and increased capacity, it is critical to invest in talent. As Ali noted, we made two senior hires to the investment team this year. Earlier this year we announced that Wes Nurss joined the investment team as Head of Research. Today, we're excited to announce Dr. Robyn Karnauskas joined the investment team as Co-Head of Sourcing.

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

Zaheed Mawani — Chief Financial Officer, DRI Healthcare Trust

Thank you, Navin.

Turning to the third quarter results. Total income was $46.9 million, down $1.9 million or 4% year over year. Ali has covered the royalty income drivers. The balance of the decline reflects a small fair value gain on the Casgevy financial royalty asset, driven by movements in the risk-free rate and the absence of last year's marketable securities gain.

Total expenses were $59.2 million, essentially flat year over year, with three items worth noting. Amortization rose $1.2 million as Lumvoa and Juvmo began amortizing on FDA approval, partly offset by the end of the Ekterly amortization. The $14.6 million Zejula impairment compares with the $13.7 million Vonjo impairment in the prior year quarter. And compensation expense was $4.1 million, up $0.5 million year over year and roughly $1.1 million above our first half run rate. That increase reflects higher accrued incentive compensation as the business tracks above the high end of our guidance, which is how our plans are designed. Compensation moves with performance. The prior year quarter also included $0.7 million of one-time severance, so the underlying increase in incentive accruals is closer to $1.2 million. These increases were offset by the reduction in interest expenses, along with lower unit-based compensation, G&A, and deal investigation costs.

Below the operating line, we recognized a $59.9 million gain on the sale of Ekterly, representing $176.2 million of proceeds against a net book value of $116.3 million. That gain is excluded from adjusted EBITDA and adjusted cash earnings. Income tax expense was $1.2 million in the quarter, reflecting tax at certain subsidiaries following internalization. It has no impact on adjusted EBITDA, cash receipts, or the distribution.

Net earnings were $46.5 million, or $0.85 per unit, and comprehensive earnings were $49.7 million compared with a comprehensive loss of $57.7 million last year, which included the $48 million termination fee.

Adjusted EBITDA was $40 million, up 9%, with a margin of 84%, consistent with prior year quarter. Ali addressed the seasonality. I would add that the incentive accrual I described accounts for roughly two points of margin and, excluding it, the margin would have been 86%.

Normalized total cash receipts were $47.5 million, up 9%, led by the final Ekterly receipts, Xolair, Omidria, and Orserdu, partially offset by Zejula and the expected runoff in other products. Including the Ekterly sale proceeds, total cash receipts were $223.7 million.

Adjusted cash earnings per unit were $0.53 compared with $0.55 last year, reflecting the lower royalty income and higher cash expenses I described. Yesterday, we declared our quarterly distribution of $0.11 per unit payable on January 20, 2027 to unitholders on record on December 31, 2026.

Turning to slide 11, we continue to generate strong cash flows from our assets. Over the last 12 months ending September 30, 2026, we reported total income of $207.2 million. After adjusting for receivables, net gains, the change in financial royalty assets, and other non-cash items, and excluding the Ekterly sale proceeds, normalized total cash receipts were $202.9 million. After operating expenses, adjusted EBITDA was $181.6 million, a trailing 12-month margin of 90%, and adjusted cash earnings per unit were $2.54.

Moving to slide 12. As of September 30th, we had $41.1 million of cash and cash equivalents, $53.3 million of royalties receivable, and $349 million of credit availability. The lower availability reflects the $271 million draw on September 29th to fund Juvmo net of the $150 million we repaid in August from the Ekterly proceeds. We remain in compliance with all covenants and the contracted Juvmo fixed payments, the first of which is due in September 2027, provide a clear path to reducing facility borrowings over the next several quarters.

On buybacks, we acquired and canceled approximately 146,000 units in the quarter at an average price of $12.42, totaling $1.8 million. In aggregate, we have acquired and canceled 4.9 million units at an average price of $7.39, totaling $36.4 million under all NCIB plans, and we continued to purchase under our AUPP from October 1st to November 4th.

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star key followed by the number one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star key followed by the number two. In the interest of time, we ask that you limit your turn to one primary question and one follow-up question. Thank you. One moment please while we assemble the queue.

Your first question comes from Doug Miehm of RBC Capital Markets. Please go ahead.

Doug Miehm — Analyst, RBC Capital Markets

Good morning, everyone. My first question just has to do with Lumvoa and elegrobart. Obviously, very good quarter and launch for the product and it looks like Viridian is planning the BLA for elegrobart in Q1. With Roche's Enspryng now approved in TED, how are you thinking about the competitive dynamics for the Viridian franchise? Thanks.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Thanks, Doug. It's Navin. Thank you for the call. As we noted at the time of the Viridian deal, we have built in multiple assets for, ah, other assets beyond anti-IGF-1R assets, and so it is not surprising to see other assets coming into the market. That's exactly what we had built into our acquisition forecast.

With that said, as you saw from the Roche data and the Enspryng data, one data set was okay. Not great, but okay. The other data set was quite weak actually. And so the overall profile of Enspryng is worse than what we had actually built in. And by the way, we had built in multiple other assets into our acquisition forecast and so any failures in those assets are upside to our estimates.

Doug Miehm — Analyst, RBC Capital Markets

Okay. That's great. And as a follow-up question, I just want to touch on growth. What you've done recently has been exceptional with the sale of Ekterly and then the reinvestment in Juvmo, and obviously, you have a number of things that you're planning for the future. When we look at valuation though and the growth of this company through 2030, I'm just wondering, based on your conversations with institutional investors, what do you think the disconnect is and how you might be able to address that when you compare yourselves versus some of the other, well, larger companies in the space. I'll leave it there. Thank you.

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

Hey, Doug. It's Ali. No, I think it's a great question and I think we ask ourselves the same question, as you can imagine, reasonably often. I would highlight a couple of points on that. One, I think we need to continue to push the envelope in terms of duration of the portfolio and providing cash flow visibility as a secondary consequence of that over a longer horizon, and I think some of our comments on our focus on pre-approval over the next couple of transactions goes to that point.

I think there are some size and scale issues in the capitalization tier that we're at and the best way out of that is obviously growth in the business and the consequence of that downstream and growth in the share price and market cap and potentially index inclusion over time. And then I think we need to work on broadening out to investors, both here and in the US. I think it's been consistently surprising to us that for a company with the free float that we have, our trading volumes are relatively limited. I have a hopeful explanation for that in the form of our investors seeing a lot of value and not wanting to sell their stakes in the Company, which I believe is the right explanation for it, but I think getting that trading

volume up and a little bit more visibility is another unlock there. But at the end of the day, what is in our control is our execution and our ability to grow the cash flows of the business and I think we continue to do that and the Juvmo transaction really provides us with a great foundation to certainly address those duration issues that I mentioned earlier and really build out the J-curve 2030 and beyond in terms of growth rates and we hope that has a meaningful impact on the way people perceive us.

Doug Miehm — Analyst, RBC Capital Markets

Great. Thank you.

Operator

Your next question comes from Louise Chen of Scotiabank. Please go ahead.

Louise Chen — Analyst, Scotiabank

Hi. Congrats on the quarter and thank you for taking my question here. I wanted to ask you how you're going to take into account the risk associated with more pre-approval assets, which you talked about earlier in your call. Is this going to be through your deal structures? How do you think about this?

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

Thanks for the question, Louise. We have spent a lot of time working on the plumbing of the business to accommodate the step out into pre-approval. And what I mean by that is we have worked both on the balance sheet and on our risk parameters and the way that we think about portfolio risk in a very technical way, building up risk models, building up grids that specifically highlight what kind of

transactions we can do at any given point in time, given the risk we have on the balance sheet, both from an asset level perspective and a balance sheet perspective, and really framing that in a very technical and quantitative way. And I think that's really what gives us confidence to take that step out. And I would say that goes hand in hand with the structuring capacity that we have shown where Navin and the team have continuously optimized the structures to really maximize where we sit on the risk return curve. And the combination of those two things, the work that we've done in terms of portfolio management and the link to the balance sheet and our structuring capacities is really what drives the confidence to take that step out.

Louise Chen — Analyst, Scotiabank

Thank you.

Operator

Your next question comes from Michael Freeman of Raymond James. Please go ahead.

Michael Freeman — Analyst, Raymond James

Good morning, team, and congratulations on the quarter. Things are looking really strong. I wanted to just have a quick one on, ah, you'd mentioned some of the factors influencing EBITDA margin compression for this quarter in particular. Maybe can you give us some thoughts on go-forward margin expectations?

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

I don't think anything has changed in terms of our long-term algorithm for EBITDA margins, so we continue to target that high 80s to 90 range in any given quarter, either because of the natural seasonality in the business that Zaheed alluded to and I alluded to in our earlier remarks or because of things like one-time true-ups and the like we may have some volatility in there. I would also say, look, we told you earlier on this year that our intention was to invest in the business, invest in the research team, and we're doing that and the cadence of when those costs layer on versus where the revenues expand in any given quarter may not be quite in sync and, as a result, margins may move around. But I think within a year, and certainly over multiple years, you will see us around that high 80s to low 90s level on a pretty consistent basis. So I don't see any reason to step down from that view, but certainly, as I said, you can have some noise in any given quarter.

Michael Freeman — Analyst, Raymond James

Okay. Okay. And on that, congrats on your hires of Wes and Robyn. Okay. Next, on Orserdu, I wonder if you could give us, and this is probably for Navin, check in on some of the key readouts that we can look forward to from Menarini/Stemline and then also from competitors that might provide new opportunity for Orserdu's placement in the standard of care?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yeah, the first is CAMBRA-1, which is the adjuvant study from AstraZeneca's camizestrant, which reads out next year. That particular study is very similar in design to the adjuvant study that Roche is, excuse me, that Menarini is conducting, which will read out in 2029. The implications of that are not small.

They have quite a bit of significant upside to Orserdu if it is positive, and the read through from that study to the Menarini study is quite meaningful and relevant and so we're excited to see how that reads out.

Michael Freeman — Analyst, Raymond James

Thank you very much. I'm going to pass it on.

Operator

The next question comes from Tania Armstrong of Canaccord Genuity. Please go ahead.

Tania Armstrong — Analyst, Canaccord Genuity

Good morning, guys. Just on margins again, I think the MD&A called out a non-recoverable HST on inter-company charges. I'm just wondering, is that a recurring cost of the post-internalization structure or something you can kind of structure around? And was any of that Q3 accrual a catch up for the first half or should we assume a similar accrual in Q4?

Zaheed Mawani — Chief Financial Officer, DRI Healthcare Trust

Why don't I start with that one? Just as a refresher and a reminder, right, since internalization, our operations sit in our corporate subs, right, and so those subs are taxable. And so, to answer your question on the HST, some of that, yes, was a catch up, so I don't think you're going to see that level of tax in the remaining quarters. But it can move from quarter to quarter, right, with the level of activity in the business, Tania, so I definitely wouldn't read that as a single quarter run rate, because it does include a bit of a catch up there.

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

I think maybe one way to broadly, sorry, Tania, one way to broadly think about it is we keep the manager at arm's length, the internalized manager at arm's length, and the structure of payments between the Trust and the manager reflects something like what you would see in an asset manager. So, when we do transactions like the Juvmo deal, you're going to see payments that would reflect success fees and completion fees for those type of deals, as you would in a traditional asset manager, and that's really a function of sort of the tax separation of the two parts of the business. So I would say those lines will move around with a bit of volatility around transaction cadence.

Tania Armstrong — Analyst, Canaccord Genuity

Okay. That's great colour. Thank you, Ali. And just on my follow up, I think Lumvoa did about $25 million in its launch quarter and that's before the permanent J-code. How does that compare to your underwriting and does Viridian's kind of six- to nine-month access ramp still hold or is uptake running ahead of original expectations?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

You don't want to… In the same way when one quarter may underperform, we don't want to oversell when one quarter overperformed. Certainly, the first quarter looks strong and it was better than our expectations, but we have only one data point that we're not going to conjecture. With that said, what was very encouraging is the fact that they have over 100 patients now signed up for Lumvoa as of the end of September and so that is a little bit ahead of our expectations, and if they keep going on that pace, it

should bode for a stronger-than-anticipated launch. We have a lot of confidence in the Viridian management team, they're a very strong team, and we look forward to the partnership with them.

Tania Armstrong — Analyst, Canaccord Genuity

Okay. Excellent. I'll get back in the queue. Thank you, guys.

Operator

Your next question comes from Nate Po of National Bank Financial. Please go ahead.

Nate Po — Analyst, National Bank of Canada Capital Markets

Good morning, everyone. Thanks for taking my question. First one is biotech equities have been largely successful year to date; has that resulted in any change at all for appetite for royalty deals?

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

I'll take that and also turn it over to Navin, who has probably better views than me on it, but I think a couple of things I'd highlight. One, obviously, M&A is a vector of competition for royalties, but with that said, I think one thing that we have shown, and the industry has shown it as well, is the non-dilutive nature of royalties providing an ability for biotechs to monetize at a much better valuation than they would have otherwise. And I think that goes both to the M&A topic, as you saw with KalVista in the Ekterly deal, and if you go through the proxy statement there, you'll see that there was a pretty long history of interest in the business and that we're able to do our royalty deal and achieve a much higher valuation than those initial approaches as a result of proving out the product and developing it a bit further in a non-dilutive

way. And I think, similarly, if you look at some of the other transactions that have been done by some of our competitors, they have allowed those companies to achieve valuations that I think if you had subbed out those royalties for an equity issuance would have been massively dilutive to shareholders, right? And so I think what we're showing as an industry is that we're providing this capital in a way that really helps these companies achieve their goals, whether those goals are monetization of the business through M&A or whether they're a massive step up in share price, we're providing better value than equity as an alternative in many, many cases.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

With regards to, yeah, I absolutely have some thoughts there. So we have not seen a slowdown of inbounds or ability to connect with companies despite strong equity capital markets, which speaks to what we have been saying for years, which is that royalty investments were going to become part of the mainstay of the financing [inaudible] that CFOs, CEOs have and boards have in order to finance their activities. And despite the strong equity capital markets for biotech, our inbounds have actually increased, and I think that's a function of DRI, of the work we've done over the last few years of showcasing that we have an ability to source and fund companies, particularly companies that are perhaps not in the main view of all of the equity investors out there and need an alternative source of capital and we were able to take down consensus views on certain assets and companies like that and we have created long-term partnerships with these companies, which is also a different approach, I think, than many of our competitors, and as such, we have, in fact, in the last three, four months, we've seen a significant increase in inbounds from potential partners.

Nate Po — Analyst, National Bank of Canada Capital Markets

That's great to hear. And when you mentioned long-term partnerships with these companies kind of being a differentiator, when you look ahead at your deal pipeline, is there a particular split or can you characterize it by new partners versus expanding relationships with existing ones?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

These conversations that we're having right now, and there are probably three that are I'd call medium stage, are completely brand new.

Nate Po — Analyst, National Bank of Canada Capital Markets

Thank you. I'll turn it over.

Operator

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

Justin Keywood — Analyst, Stifel

Good morning. Thanks for taking my call. On the expected timing for a transaction to occur, this was provided earlier this year, as in the second half, and Juvmo subsequently occurred. Is there timing to provide now on the expectation for the next transaction?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yeah, I'll be consistent with what we said post tavapadon, which again is only a month and a half old, and not even a month and a half old, which is to say I wouldn't expect something before year end. Most likely, it is the first half of next year, closer to the second quarter of next year.

But if something were to happen, it'll happen. But we have a fair amount of inbound that we're going through right now. Year end is, obviously, and year beginning is quite a busy period for companies as they get ready for conference season, effectively, and dealing with their board meetings and/or their planning sessions.

Justin Keywood — Analyst, Stifel

That's helpful. And then I want to come back to the dollar value of the pipeline mentioned earlier in the call. If I heard correctly, it's increased from $3 billion to $4.5 billion. Are we able to—?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Correct.

Justin Keywood — Analyst, Stifel

Yeah, so what is making up that additional expansion? I assume this is more commercial-stage assets or maybe not? And could that include any portfolio of assets?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

So, a couple of things. Portfolio is always an option for us that has been an option, particularly since Ali has come on board and helped with shoring up our balance sheet and doing everything to optimize the balance sheet that has increased our capacity meaningfully, as you've seen. Obviously, the Ekterly sale helped as well with that. So, portfolios are always a potential option for us, but no, we have always stated, very clearly I think, that our pipeline, because I've been getting the question for multiple quarters in a row, not so much in the last couple of quarters but certainly historically multiple quarters in a row, we were asked that the $3 billion pipeline number hasn't changed, hasn't changed, and that was purposeful, for multiple reasons. The pipeline was always bigger than $3 billion, we just never took it above $3 billion because, A, we didn't have the financial capacity, and B, we didn't fully have the people resources to go after every one of those assets.

Since Ali has optimized the balance sheet and the work that he and Babak have conducted to give us increased financial capacity, as well as the positive results of the Ekterly disposition, we have also, in addition to that, increased the quality of talent that we have as an organization, bringing Robyn on board, bringing Wes on board, and we now have a research and sourcing team that has 100% been recruited by me, which is not necessarily the case at the time of when the company went public and we had inherited some folks, and so there have been material upgrades to the team that have happened. That is now allowing us to go target a much larger set of assets and larger set of pipeline, which I think also speaks to what we've been saying for years, which is that royalty investments as a vehicle has become more mainstream.

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

I'll jump in there, and I think this goes a little bit to the question asked earlier by Louise, which is, you know, I think all of these bits and pieces work together, right? So, when you think about our capacity to do investments, there's a balance sheet component to that. When you think about our capacity due diligence investments, there is a hiring and breadth and quality of team question to that. When you think about the risk appetite for investments that are outside of the commercial space and in the pre-approval space, well, that also goes to having the right team to do it but it goes to the risk framework that we've spent a lot of this year building that sort of allows us to correctly size and think about those investments. And all those pieces needed to be done architecturally to broaden the scope and size of what we can do, and that, in combination with, I think, the cash flow that Juvmo brings in for us, is really what's opened up a broader runway, right?

So I think one part is the spreadsheet stuff in terms of the financing capacity, the Juvmo cash flows, the Ekterly proceeds coming in, and the other part of it is the work that we've done in the infrastructure of the organization in terms of understanding and managing risk and having the right team members to take certain types of risks and we are there now. So I think, when you see both the pipeline where it is and you see sort of our medium-term growth expectations moving up, it's a reflection of all of those things coming together to sort of build a better runway for us.

Justin Keywood — Analyst, Stifel

Very interesting. Look forward to the developments ahead. Thank you.

Operator

The next question comes from Filip Stevanovic of CIBC World Markets. Please go ahead.

Filip Stevanovic — Analyst, CIBC World Markets

Hi. This is Filip on for Erin Kyle. Congrats on the strong quarter. Just one question on the Zejula impairment. With net book value now close to $7 million, you mentioned you expect cash receipts to decline year over year going forward. Can you just help us understand the rate of that decline near term in your forecast and do you expect the remaining cash receipts to be like more front loaded over the next few years or realized more gradually?

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Sorry, I just want to be clear, we're talking about Zejula only when you say the declines, correct?

Filip Stevanovic — Analyst, CIBC World Markets

Yes.

Navin Jacob — Chief Investment Officer, DRI Healthcare Trust

Yeah. So they are more front loaded. We anticipate a fair amount of declines over the next few years and then trailing off in the last few years. Having said that, as we said, those cash receipts are now 1% or less of total cash receipts.

Filip Stevanovic — Analyst, CIBC World Markets

Thank you. I'll pass my line.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Ali Hedayat. Please continue.

Ali Hedayat — Chief Executive Officer, DRI Healthcare Trust

Thank you, operator. And look, thank you all for joining us. We look forward to speaking to you in the fourth quarter where we will, as Navin mentioned, update our guidance and give you some better perspective on where we sit in terms of the medium term. Thank you for joining us and thank you to the DRI team for another great quarter of execution.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.