

July 18, 2022

## Unpacking Royalty Pharma



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### **The serial acquirer of royalty interests is coming into its own, but the secret to its success lies in cystic fibrosis.**

A dire market has seen numerous biotechs feeling the pinch, and because Royalty Pharma can offer such companies instant cash its business has flourished. Poor market conditions surely lie behind an uptick in royalty financings, such as Royalty's recent [deals for Gavreto](#) and [Trelegy Ellipta](#), and [Omers Capital Markets picking up Ultragenyx's Crysvida last week](#).

Royalty thus timed its 2020 IPO to perfection; while others crashed its stock has put on 8% in the past 12 months. But is Royalty's \$30bn valuation warranted? Cut through the complex web of transactions and it becomes clear that, like any other investor betting on multiple assets, Royalty only needed to get lucky a few times to justify its entire business.

#### **Masterstroke**

Royalty had struck multiple deals since being founded in 1996, but its single biggest masterstroke was to secure rights from the Cystic Fibrosis Foundation to Vertex's CF drugs. Not only did this cover at least four separate assets, including combinations, it continues in perpetuity and is not tied to a patent term, as is typical for royalty financing.

How good was this deal? Royalty had paid \$3.9bn to secure it, across two separate transactions, and it has already collected nearly \$2bn of royalties from the Foundation, between 2016 and 2021, SEC filings show.

Not only that, but the royalty that Royalty stands to receive in future, calculated as a percentage of *Evaluate Pharma's* sellside consensus revenue forecasts discounted for cost of capital, stands at \$9.5bn, *Vantage* calculates. Thus, with the CF franchise generating sales well into the future, Royalty looks like it could triple its money.

## Royalty Pharma's selected revenue generators

Product(s)	Interest acquired from	Deal date	Up-front paid (\$m)*	Royalties 2015-21 (\$m)	Assumed blended rate	NPV of future in-market sales**	NPV of future royalties**
Kalydeco, Orkambi, Symdeko & Trikafta	Cystic Fibrosis Foundation	Nov 2014 & Nov 2020	3,875 <sup>^</sup>	1,952	9%	105,387	9,485
Tysabri	Perrigo	Feb 2017	2,200	1,650	18%	16,076	2,894
Imbruvica	Quest Diagnostics	Jul 2013	485 <sup>^^</sup>	1,472	5%	44,368	2,218
Trelegy Ellipta	Theravance & Innoviva	Jul 2022	1,382	0	9%	17,586	1,495
Xtandi	UCLA	Mar 2016	1,140	681	4%	25,568	1,023
Promacta	Ligand	Mar 2019	827	404	8%	3,765	301
Evrysdi	PTC Therapeutics	Jul 2020	650	16	5%	10,512	526

*Notes: right to Tysabri, Imbruvica and Evrysdi were acquired at the pre-revenue stage; \*excludes milestones; \*\*assumes WACC at 6%; <sup>^</sup>2 separate transactions of \$3.3bn & \$575m; <sup>^^</sup>Royalty later sold 20% of this royalty to Aisling Capital and Clarus Ventures for undisclosed amount. Source: SEC filings & Evaluate Pharma sellside consensus.*

The CF masterstroke notwithstanding, Royalty is about more than just this one deal. A host of smaller transactions are generating revenues that amounted to \$2.1bn last year.

The table above shows selected deals, with the amounts Royalty paid to secure rights compared against the amounts received in 2015-21 and the sums it still stands to book in future. It is clear that Tysabri – another perpetual licence – and especially Imbruvica are proving hugely profitable for the company.

Meanwhile, Promacta and Evrysdi might just about wash their faces, our calculations suggest. Also in this category is last Wednesday's deal for a royalty GSK pays on Trelegy Ellipta, which [as Evaluate Vantage argued](#) will generate a strong return only if the sellside's forecasts for the inhaled therapy prove too conservative.

What else is Royalty banking on in future? Among the deals it has signed covering pre-revenue projects is last year's [complex transaction with Morphosys, effectively securing the latter's acquisition of Constellation Pharmaceuticals](#). There are many caveats to the calculations below, but Royalty will also be hoping that the projects involved here outperform; this is no easy task given that one is gantenerumab.

## Interest secured by Royalty Pharma on selected projects yet to generate sales

Development-stage project	Interest acquired from	Marketer	Deal date	Up-front paid (\$m)*	Assumed blended rate	NPV of future in-market sales (\$m)**	NPV of future royalties (\$m)
Aficamten	Cytokinetics	Cytokinetics	Jan 2022	50	4%	10,497	420
Gantenerumab	Morphosys	Roche	Jun 2021	1,425	4%	26,157	1,516
Otilimab		GSK			10%	4,757	
Pelabresib		Morphosys			3%	1,766	
CPI-0209					3%	224	
Omecamtiv mecarbil	Cytokinetics	Cytokinetics	Feb 2017	100	5%	NA^	NA^

Notes: \*excludes milestones; \*\*assumes WACC at 6%; ^asset written off by Royalty in Dec 2020. Source: company statements & Evaluate Pharma.

And it must be remembered that not all of Royalty's deals have succeeded. The company wrote off Cytokinetics' omecamtiv in 2020 - [only to sign a second deal with Cytokinetics](#), covering aficamten, whose proceeds the source company ironically vowed to plough into pressing on with omecamtiv.

However, as numerous successful deals that have already expired suggest below, Royalty can well afford a few duds. Since being founded the company has deployed some \$20bn buying up royalty streams, and last year generated \$600m of net profit on the \$2bn or so of revenue it generated.

What really underpins its valuation is the future royalties already secured, not to mention the group's ability to strike further deals. Royalty has an impressive track record, and there appears to be no shortage of willing sellers.

## Selected expired deals that built Royalty Pharma's track record

Product(s)	Interest acquired from	Marketer	Deal date	Up-front paid (\$m)*	Royalties 2015-21 (\$m)
Emtricitabine part of HIV combos	Emory University	Gilead	Jul 2005	525	1,429
Tecfidera	Fumapharm	Biogen	May 2012 & Jan 2014	1,271**	2,525
Humira	Astrazeneca	Abbvie	Oct 2006	700	1,707
Januvia, Janumet & other DPP-IVs	Prosidion (Astellas)	Merck & Co etc	Jun 2011	609	1,124

Notes: \*excludes milestones; \*\*2 separate transactions of \$761m & \$510m. Source: SEC filings.

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