

Royalty Financing in Biopharma

A Strategic Guide for Biopharma Leaders

Key Takeaways

- Royalty financing offers a compelling alternative to traditional capital sources. Unlike equity, it is non-dilutive, preserving ownership stakes and board control. Unlike debt, it carries no fixed repayment obligations, restrictive covenants, or liens on company-wide assets. Payments are tied solely to the performance of a specific asset, aligning investor and company interests around commercial success.
- Adoption has reached critical mass. According to recent Deloitte research, nearly 90% of biopharma executives would consider royalty financing to meet capital needs over the next three years. Synthetic royalty transaction volume has quadrupled, reaching approximately \$10 billion during 2020-2024, up from \$2.3 billion in 2015-2019.
- Deal economics are disciplined and highly customizable. Royalty investors typically target mid-teens IRRs, pricing transactions against risk-adjusted future cash flows. Structures are tailored to each situation, incorporating features such as tiered royalties, milestone payments, caps, and buyout options to bridge valuation gaps and align incentives.
- Rigorous diligence mitigates clinical, commercial, and legal risk. Investors conduct comprehensive due diligence across clinical data, commercial forecasts, intellectual property, and deal structure. This process—often involving KOL consultations, competitive analysis, and bankruptcy-aware legal review—serves as independent validation of an asset's risk-adjusted value.
- Royalty assets offer resilience in volatile markets. Returns are driven by product-level clinical and commercial performance, not interest rate movements or broader capital market conditions. This decorrelation makes royalty financing an attractive option during periods of equity market weakness or credit tightening.

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Published on March 26, 2026

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Introduction

What Are Royalties?

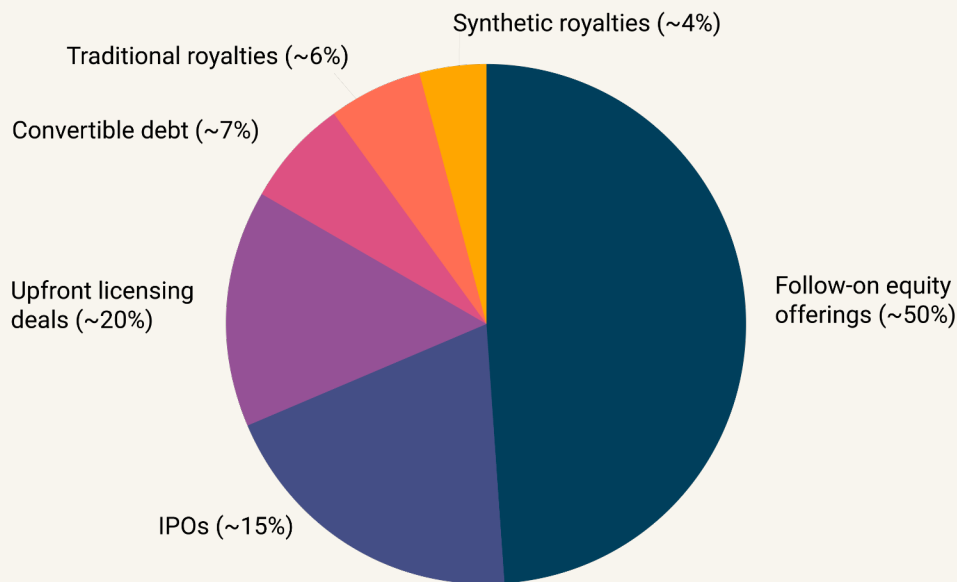
Biotech royalties are financial instruments that entitle the holder to a percentage of top-line sales of a pharmaceutical product. Royalty transactions exchange upfront capital for a stream of future cash flows derived from these product sales.

For sellers—such as biotechnology companies and universities—royalty financing monetizes non-core assets or provides non-dilutive capital without the restrictiveness of traditional debt. For investors, these assets offer uncorrelated returns, inflation protection, and yield.

Guide to Royalty Financing Structures

Royalties are not one-size-fits-all instruments but rather a sophisticated toolkit of tailored solutions, adaptable to a company's specific capital requirements and asset profile. This flexibility is a core strategic advantage, enabling transactions that align precisely with a company's capital needs and value-creation objectives.

Figure 1: 290 billion USD biopharma industry funding breakdown.



Dealogic, Biomedtracker, Royalty Pharma estimates.

Two **primary structures** form the foundation of royalty financing:

Attribute	Traditional Royalty Monetization	Synthetic Royalty Financing
Definition	The sale of a company's right to receive future milestone and royalty payments from an existing third-party licensing agreement.	The creation of a new, bespoke revenue-sharing agreement on a drug that the company owns outright—a contractual cash flow designed to replicate a traditional royalty.
Origin of the Royalty	The royalty stream already exists as part of a previously negotiated out-licensing partnership.	The company creates a revenue-sharing arrangement where none previously existed.
Underlying Asset Ownership	The transaction is based on cash flows from an asset that is licensed to a partner, who is responsible for development and commercialization.	The transaction is structured around the asset's future cash flows, enabling the biotech to retain full ownership of the underlying IP and the asset itself.

Traditional royalty monetization is the tool for accessing immediate, non-dilutive capital from assets that are already partnered. Synthetic royalty financing is the tool for raising capital against high-value, wholly owned assets without entering a strategic partnership or selling equity. Each structure offers a distinct application for managing a company's portfolio.

Synthetic Royalties

A synthetic royalty is a contractual arrangement created by a company that owns a drug and its intellectual property outright. Instead of licensing the asset to a partner, the company commits a percentage of the drug's future sales to an investor in exchange for upfront capital. Crucially, the company retains full ownership of the underlying intellectual property—only a right to a portion of future revenue is sold.

Synthetic royalties provide a flexible alternative to conventional financing methods, offering a distinct risk-reward profile that addresses the limitations of both equity and debt.

Core Strategic Benefits

Royalty financing should be viewed not merely as a funding mechanism but as a strategic tool. It empowers biotech to de-risk high-value assets, accelerate development of the broader pipeline, and fund growth initiatives—all while protecting shareholder equity.

In practice, the advantages for a biotech company extend beyond a simple off-balance sheet

Comparison point	Synthetic Royalties vs Equity Financing	Synthetic Royalties vs Debt Financing
Control and dilution	Non-dilutive; preserves full ownership and board control for existing shareholders.	Less risky; avoids restrictive covenants and liens on company-wide assets and operations.
Risk and Repayment Structure	Payments are tied to the performance of a single asset, isolating risk from overall company valuation.	Payments scale with revenue, unlike fixed debt service obligations.

capital infusion, offering significant strategic and financial flexibility.

Immediate, non-dilutive capital: Royalty financing provides a substantial upfront cash payment without the sale of company shares. This allows the company to fund critical development, commercialization, or operational priorities while avoiding dilution.

Retention of control: Royalty investors are financial partners, not strategic ones. Unlike venture capital or strategic equity investors, they typically do not seek board seats, voting rights, or operational influence. Management and the board retain full control over corporate strategy and development programs.

Operational flexibility: The proceeds from a royalty transaction are unrestricted. This capital can be freely deployed to finance other development projects, scale manufacturing, fund commercial launches, or return capital to shareholders—an option often unavailable with traditional equity financing.

Financial de-risking: By monetizing an uncertain future revenue stream, the company transfers a significant portion of program-specific risk to the royalty investor. If a development program fails or underperforms commercially, the company has already received a risk-adjusted purchase price, mitigating downside exposure.

Superiority to traditional debt: Royalty financing serves as an attractive alternative to debt, which may come with dilutive warrants, restrictive covenants, and encumbrances on core intellectual property. Royalty financing is typically non-recourse and tied only to the performance of a specific asset.

Alignment of interests: A royalty transaction creates a powerful alignment focused on a single metric: the commercial success of your asset. Compared to a strategic partnership with a large pharmaceutical company, royalty financing offers a superior value proposition, particularly regarding control and long-term optionality. Strategic partnerships typically transfer operational decision-making authority to the larger organization, constraining the originating company’s ability to shape development priorities, commercialization strategy, and geographic expansion. This loss of control can fundamentally alter the company’s strategic trajectory and cap the potential upside for which early shareholders took significant risk. The choice between royalty financing and a pharma partnership is therefore a decision about who will steward the asset to its

peak potential.

These benefits apply to both traditional royalty monetizations and synthetic royalties.

Strategic consideration	Royalty financing	Pharma partnering
Strategic optionality	High	Low
Retention of economics	Very high	Low
Operational control	High	Low
Cost of capital	Low to medium	Very high

Market Landscape

The royalty financing market has undergone significant transformation over the past decade, evolving from a niche funding source into a mainstream capital strategy for biopharma companies. This section examines the market's growth trajectory, structural evolution, and the forces driving continued expansion.

Market Size and Growth Trajectory

Overall Market Performance

The royalty financing market has more than doubled in size between consecutive five-year periods. From 2020 to 2024, biopharma companies raised nearly \$30 billion through royalty transactions, compared with approximately \$13.5 billion during 2015-2019—a 2.2x increase in total capital raised.

This momentum accelerated in 2025, with the market reaching a record \$10 billion in announced transaction value—approximately 40% higher than the average annual value of \$7.1 billion observed from 2021 to 2024. This record year reflects royalty financing's evolution from niche funding source to established capital strategy.

Despite this growth, royalties still represent less than 10% of total biopharma industry funding during 2020-2024, when the sector raised over \$310 billion in new capital. This relatively modest penetration—with traditional royalty monetizations comprising approximately 6% of

funding and synthetic royalties just 3%—indicates substantial room for continued market expansion.

The Synthetic Royalty Surge

Synthetic royalties—new revenue-sharing arrangements on wholly owned assets, as distinct from monetizing existing licensing agreements—have emerged as the primary growth driver. The market saw \$10 billion in synthetic royalty transactions during 2020-2024, up from \$2.3 billion in 2015-2019—a 4.3x increase. The average annual growth rate throughout the period was 33%. Market share expanded from 20% to 33% of total royalty funding between these periods. In 2024, synthetics accounted for over 50% of all royalty funding for the first time. This trend continued in 2025, when synthetic royalty transaction value reached \$4.7 billion, representing nearly half of the year's total market activity.

Executive Sentiment and Adoption

Industry Survey Findings

Research conducted by Deloitte,¹ surveying over 110 biopharma executives in 2024-2025, reveals strong interest in royalty financing as companies seek to diversify capital sources. Key findings include: 87% of executives would consider royalty financing to meet capital needs over the next three years; nearly 80% expressed specific interest in synthetic royalties to fund future growth; 55% reported increased interest in royalties over the past three years, reflecting growing familiarity; and 75% are likely to pursue royalty funding in combination with equity or debt, recognizing the value of diversified capital structures.

This 77% combined likelihood represents a significant shift from five years ago, when royalty financing was viewed as a niche or opportunistic option.

Why Executives Choose Royalties

Survey participants identified several benefits driving adoption. Non-dilutive capital (cited by 67%) preserves equity value without ownership dilution. Absence of financial covenants avoids the restrictive operational constraints typical of traditional debt. Retention of operational control distinguishes royalty financing from strategic partnerships, as royalty investors do not seek board seats or management influence. Product-specific financing ring-fences repayment obligation to a single asset rather than enterprise-wide exposure. Alignment of interests ensures revenue-linked payments cause investors and management to share incentives for commercial success. Speed of execution is typically faster than strategic partnerships while providing institutional-scale capital.

As one biotech CEO noted: "*The idea that [royalties] would prevent an acquisition in any way... it's nothing more than a myth.*" This reflects growing recognition that royalty obligations, when properly structured, pose minimal impediment to strategic transactions.

1. Deloitte (2025). Report: Role of Royalties in Funding Biopharma Innovation.

Investor Landscape

The expanding investor base reflects market maturation. Twenty-four unique investors participated in synthetic royalty transactions from 2019-2024, with 15 investors completing two or more transactions, 9 investors completing three or more deals (up from 8 in prior periods), and 7 investors completing four or more transactions (up from 6).

This proliferation of active participants has created more competitive dynamics, generally benefiting companies through improved pricing, more flexible terms, and broader access to capital across the development stage spectrum.

New Market Entrants Drive Innovation

The arrival of well-capitalized institutional investors—particularly Blackstone, Blue Owl, and KKR—has introduced several market innovations. These include larger deal sizes (average transaction value nearly doubled from 2023 to 2024), hybrid structures combining synthetic royalties with secured debt (exemplified by Revolution Medicines' \$2 billion structure), clinical funding components with development capital tied to milestone achievement alongside revenue-based repayment, portfolio approaches financing multiple assets within a single transaction structure, and earlier-stage risk tolerance with growing willingness to finance Phase III assets pre-approval.

Therapeutic Focus

Oncology dominates royalty financing activity, representing 26% of transactions over the past five years. This concentration reflects the sector's compelling investment thesis: high unmet medical need supports premium pricing, while accelerated approval pathways compress time-to-market and reduce regulatory risk. Neurology/CNS (13%), cardiovascular (10%), and endocrinology/metabolic (9%) follow, though no single category approaches oncology's deal volume.

Notably, 46% of royalty transactions involve rare or orphan indications—a trend we view as structurally attractive. Rare disease assets offer pricing power (\$300K-\$2M per patient annually), regulatory incentives (seven-year market exclusivity, accelerated approval pathways, tax credits), and durable intellectual property protection. From a royalty investor's perspective, these assets also provide predictable commercial uptake given clearly defined patient populations and established payer acceptance for orphan therapies. We anticipate continued capital flow toward rare disease royalties as investors seek assets combining defensible economics with lower commercial execution risk.

Market Drivers and Tailwinds

Capital Market Environment

Several macroeconomic and sector-specific factors have accelerated royalty financing adoption.

Equity market challenges: The biotech IPO market remained largely frozen through 2023-2024, with only three debuts in Q2 2024—down 71% from 2021 peaks. Global life sciences venture investment dropped 35% year-over-year in 2022, followed by another 24% decline in 2023. Biotech valuations compressed significantly, making equity financing more dilutive. Even strong companies faced limited access to public markets for follow-on offerings.

Debt market constraints: Rising interest rates increased the cost of traditional debt from 2022-2024. Tightening credit standards and more restrictive covenants limited flexibility. Broad asset pledges constrained strategic options. Senior secured debt increasingly required revenue thresholds unsuitable for clinical-stage companies.

Advantages of royalty financing in this context: Royalties provide institutional-scale capital without immediate dilution, avoid restrictive financial and operational covenants, offer asset-specific rather than enterprise-wide exposure, feature flexible payment structures that scale with commercial success, and demonstrate less sensitivity to interest rate environment and capital market volatility.

Structural and Industry Factors

Increasing R&D costs: Average investment to bring a drug from discovery to launch is \$2.3 billion according to Tufts CSDD estimates. Aggregate industry capital requirements are projected to exceed \$1 trillion over the next decade. Complex biologics and cell/gene therapies are driving costs higher. Longer development timelines are increasing capital needs.

Industry fragmentation: Proliferation of smaller, specialized biotech companies versus integrated pharma has changed the landscape. Increased out-licensing and partnering creates natural royalty streams. Geographic R&D expansion in China and India generates cross-border opportunities. Numerous collaborations and licensing deals provide royalty creation opportunities.

Scientific innovation: Breakthrough therapy designations accelerate development timelines. Precision medicine and biomarker-driven development improve success rates. AI/ML platforms reduce discovery costs, enabling more candidates to reach clinic. Novel modalities including ADCs, RNA therapeutics, and gene editing attract significant investment.

Regulatory and Strategic Considerations

FDA and regulatory dynamics: Increased use of accelerated approval pathways provides earlier revenue opportunities. Real-world evidence acceptance reduces post-approval study burdens. Orphan drug and rare disease incentives improve development economics. Regulatory precedent makes risk assessment more predictable for investors.

Strategic portfolio management: Large pharma increasingly uses royalty structures for portfolio optimization. Non-core asset monetization proceeds without full divestiture. Capital recycling funds higher-priority programs. Risk transfer for individual products occurs while maintaining operational control.

Market Maturity Indicators

Several metrics suggest the royalty financing market is reaching maturity as an established asset class.

Structural standardization: 100% of 2024 synthetic royalty transactions were secured by product assets (up from 67% in 2020). Post-Mallinckrodt, true-sale structuring and SPV isolation have become standard practice. Convergence around royalty rate ranges (1% to 13.8%, clustering at 4-10% for most transactions) reflects market efficiency. Milestone-heavy structures are gaining preference, allowing risk/return optimization.

Increasing transparency: Growing number of publicly disclosed transactions with detailed terms supports market development. Multiple law firms publish annual market studies. Industry conferences feature royalty financing tracks. Educational initiatives by investors clarify structures and use cases.

Integration into capital planning: CFOs routinely model royalty financing alongside equity and debt alternatives. Board-level discussions address strategic value beyond pure capital raising. Financial advisors have developed specialized royalty structuring practices. Rating agency methodologies incorporate royalty obligations into credit analysis.

Market Projections

Based on current trajectories and fundamental drivers, the royalty financing market appears positioned for sustained growth.

2026-2028 outlook: Annual market size is expected to reach \$15-20 billion by 2028. Synthetic royalties are continuing to gain share, potentially reaching 60% or more of total market. Continued new investor entry occurs as institutional capital seeks alternative investments. Hybrid structures combining royalty with debt and royalty with equity are becoming more common.

Key variables: Equity market recovery could moderate royalty adoption if the IPO window reopens broadly. Interest rate environment affects discount rates and valuation economics. IRA implementation and drug pricing regulations may affect revenue projections. Continued industry fragmentation creates more standalone companies requiring flexible capital.

The convergence of capital constraints, increasing R&D costs, industry fragmentation, and proven transaction structures suggests royalty financing has established itself as a mainstream component of biopharma capital formation—no longer a niche alternative but a standard tool in the financial strategy toolkit.

When to Use Royalty Financing

Royalty financing is not a universal solution to every biopharma company's capital needs. Rather, it is a specialized tool suited to specific situations, asset profiles, and strategic objectives. This section provides a practical decision framework for determining whether and when royalty financing should be part of a company's capital strategy.

The Development Stage Imperative

The single most important determinant of whether royalty financing is viable is the development stage of the target asset. Market data, investor preferences, and economic viability all depend critically on where a product sits in the development cycle.

Optimal Stage: Phase III with Positive Data and Approved Products

Phase III with positive pivotal trial data represents the inflection point where royalty financing transitions from theoretical possibility to realistic strategy.

Royalty Finance Transaction Distribution by Stage (2020-2024): Approved products account for 72% of all transactions (51% synthetic, 87% traditional). Phase III assets represent 22% of synthetic transactions and 3% of traditional royalties. Phases I-II combined account for less than 3% of market transactions, and preclinical assets represent 3% or less.

This distribution reflects investor risk assessment: companies pursuing approved products and Phase III assets with positive interim data can access institutional capital at reasonable rates. Earlier-stage assets face dramatically constrained investor interest and unfavorable pricing.

FDA Approval Success Rates: Phase I to Phase II advancement is approximately 30%. Phase II to Phase III advancement is approximately 15%. Phase III to Approval success rate is approximately 52%. Overall likelihood of approval from IND is approximately 10-15%.

These statistics explain investor preference. Phase III represents an inflection point where the probability of eventual approval nearly triples compared to Phase II. An investor pricing a Phase III deal expects 52% probability of approval, while a Phase II deal assumes only approximately 15% advancement probability, fundamentally changing the risk-return calculus.

Phase III: The Practical Reality

For Phase III assets with positive pivotal trial data, royalty financing becomes genuinely viable. Consider a classic structure example for Phase III development funding.

Scenario: A company developing a novel oncology therapeutic entering Phase III with a capital need of \$75 million for a pivotal trial over 36 months. The asset has promising Phase II data, a differentiated mechanism, and a large addressable market. Traditional financing presents challenges: the company is too early for an IPO (Phase III not yet approved), venture debt is insufficient (\$75 million exceeds typical \$20-40 million tranches), and equity dilution would be substantial (20-25% at current valuations).

Royalty Financing Solution: Upfront capital of \$40-50 million covers trial costs plus general corporate needs. Milestone payments include \$10 million upon positive Phase III data readout, \$15 million upon FDA approval or marketing authorization, and \$10 million upon first commercial sales threshold (\$50 million annual revenue). The ongoing royalty is 5-7% on net sales, capped at a 2.0x return multiple. Total potential value to investor is \$75-85 million, with IRR targets of 14-18%.

Company benefits include non-dilutive capital for trial execution, risk transfer to the investor if the trial fails (the investor loses while the company retains capital for a pivot), incentive alignment where both investor and company benefit from regulatory success, downside protection as the company receives \$40-50 million upfront regardless of trial outcome, and control retention as the company remains independent and develops the product as designed.

Approved Products: Highest Success Rate

Approved products represent the safest harbor for royalty investors and the most favorable pricing for companies.

Why approved products are investor-preferred: Zero regulatory risk since the product already has FDA approval with no approval uncertainty. Revenue visibility with actual historical sales data available and revenue projections based on real market performance. Shorter modeling horizon where the investor projects 5-10 years versus 15-20 years for development-stage assets. Lower discount rates as historical profitability reduces risk premium. Exit clarity where exit scenarios such as generic entry, label extension, or acquisition are more predictable.

Approved product characteristics that attract royalty investors: Peak annual sales potential of \$200 million or more (ideally \$500 million or more). Market durability with 7+ years of exclusivity remaining (patent life plus exclusivity). Clear therapeutic differentiation or market position. Established adoption curve with visible growth path. Mature, well-understood efficacy and safety profile.

Asset Profile Assessment

Beyond stage and capital size, specific characteristics of an asset determine suitability for royalty financing.

Ideal Asset Characteristics: “Go” Indicators

Market size and potential: Peak sales potential of \$200 million or more annually drives investor interest and valuation. Below this level, insufficient upside exists for mid-teen IRR targets. Example: An ultra-rare disease with less than \$100 million peak sales presents a difficult royalty case. Addressable market of 100,000 patients or more globally provides revenue scale opportunities. Niche markets under 50,000 patients face investor skepticism. Long market exclusivity remaining (7+ years) provides runway for royalty payments post-

peak sales.

Competitive positioning: Clear therapeutic differentiation versus competitors is essential. Me-too products with minimal differentiation face pricing pressure and investor skepticism. Distinct mechanism, superior efficacy, safety profile, or convenience are favorable factors. Strength of intellectual property matters, with composition of matter patents extending exclusivity and method-of-use and formulation patents providing secondary protection. Patent landscape review should confirm freedom-to-operate. Regulatory differentiation through fast track, breakthrough therapy, or priority review designations adds value for assets not yet approved.

Commercial and market dynamics: For approved products, established market adoption with actual sales data tracking a predictable adoption curve is favorable. Manageable and telegraphed competitive entry, along with established payor access and reimbursement, strengthen the case. No near-term competitive threat from superior products is important, with patent cliff timing known and far-term, competitive pipeline monitored and limited, and market share maintained or growing. For out-licensed assets, strong sponsor or marketer capability with large pharma commercial infrastructure and history of successful product launches is favorable.

Unfavorable Asset Characteristics: “No-Go” Indicators

Peak sales potential under \$200 million annually provides insufficient revenue to support mid-teen IRR targets at investor discount rates. Addressable market under 50,000 patients lacks scale for investor comfort. Competitive threat from superior products entering within 2-3 years pressures forecast peak sales erosion and investor returns. Patent or exclusivity expiration within 5 years provides insufficient runway for the investor to capture the full royalty stream.

Weak intellectual property position with freedom-to-operate concerns, known workarounds, or obvious design-arounds is problematic. Unproven or problematic labels with safety issues limiting adoption, efficacy gaps versus competitors, or narrow indications limiting patient population present challenges. Marked competitive intensity with 5+ approved competitors in market, commoditized pricing, and company losing market share makes pricing difficult. Commercial execution risks where the marketer (partner or internal) lacks demonstrated capability, launch is underperforming forecasts, or commercial team has turnover or instability raise investor concerns.

Optimal Timing Considerations

Best Timing: Approved Product with Launch Traction. Scenario: Product approved 12-24 months, sales tracking forecast, analyst coverage establishing market. Why optimal: Minimal revenue risk (product already approved). Actual sales data validates forecasts. Investor pricing most favorable (lowest risk premium). Company achieves best valuation multiples. Time pressure minimal; process can be executed deliberately.

Favorable Timing: Phase III with Positive Data. Scenario: Pivotal trial readout achieved, FDA meetings scheduled, no near-term binary events. Why favorable: Proof-of-concept established;

reduced regulatory risk. Milestone payments can bridge to approval and launch. Investor recognizes value; mid-tier IRR achievable. Company retains strategic optionality.

Challenging Timing: Pre-Pivotal Phase III. Scenario: In Phase III trial; readout 12-18 months away; preclinical data strong. Why challenging: Binary outcome risk leads to higher investor discount rate. Milestone-heavy structure likely (payment upon approval, not upfront). Unfavorable pricing (investor requires return premium for risk).

Pre-Clinical or Phase I-II are not viable targets for royalty financing. Alternative financing is required.

When Not to Pursue Royalty Financing

Companies should explicitly avoid royalty financing if:

1. Development stage is Phase I or II (wait until Phase III data or use venture equity).
2. Capital need exceeds \$1 billion (use equity or strategic partnerships).
3. Peak sales potential is under \$150 million (investors are uninterested due to insufficient upside).
4. Weak competitive position exists (revenue pressure will constrain investor returns).
5. Strategic partner is essential (out-licensing provides capabilities you need).
6. Multiple near-term pivots are expected (royalty is tied to specific asset; pivots create complications).
7. Company needs operational governance involvement (royalty investors are passive; seek equity for strategic support).

Structure and Economics of Royalty Deals

The pricing in a royalty transaction is not an arbitrary figure; it is the outcome of a rigorous financial analysis grounded in the asset's risk-adjusted future cash flows. For the biotechs, understanding this framework is essential for negotiating terms that fairly reflect the asset's potential while meeting the company's capital needs.

These bespoke deals can include tiered royalties, milestone-based arrangements, capped or hybrid instruments, territory or indication splits, multiproduct deals, and tranching funding, giving both investors and companies the means to engineer economics favorable for the investors' returns and the companies' financing needs.

Deals are meticulously structured and designed to be “win-win solutions.”

The Valuation Framework

The core of any royalty deal is a financial model that translates future potential into present value.

Foundation in future cash flows: The valuation begins with establishing the future value of the licensing contract or revenue stream. This requires a robust forecast that incorporates market size, uptake assumptions, pricing, and competitive dynamics.

The role of risk-adjustment, or rNPV: The purchase price reflects the fair value of all risk-adjusted future milestones and royalty payments. Investors calculate rNPV using probability-weighted discounted cash flow models that account for clinical, regulatory, and commercial uncertainties.

The investor's risk premium: The company will not receive 100% of the asset's calculated fair value. The royalty investor receives a risk premium for providing capital today against future, uncertain payments. This premium compensates the investor for assuming asset-specific risk.

Key Performance Metrics

From the investor's perspective, the primary metric for evaluating individual deals is the *internal rate of return, or IRR*—a measure that accounts for the timing and magnitude of cash flows over the investment's life. Typical target IRRs fall in the mid-teen percentage range.

This is often complemented by a cash-on-cash return target, which measures total cash returned relative to the cash invested. Typical targets exceed 2.0x.

At the portfolio level, two additional metrics provide a broader view of business performance. *Return on invested capital (ROIC)* measures cash generated relative to active capital deployed. *Return on invested equity (ROIE)* provides a complementary lens on aggregate returns to equity holders.

Investors price deals to meet specific return hurdles, and these targets directly influence the purchase price and the degree of upside participation sold.

These financial outcomes are shaped not only by revenue forecasts but by the specific contractual terms that define each transaction—including structuring levers and protective clauses.

Key Valuation Drivers

Three factors most significantly influence royalty valuations.

Revenue forecasting quality: Forecast accuracy and the credibility of underlying assumptions frequently exert the greatest influence on valuation outcomes.

Competitive landscape: Future market entrants, product (asset) differentiation, and erosion curves can materially affect peak sales estimates and duration assumptions.

Discount rate and return targets: The discount rate reflects perceived risk, while most royalty investors also underwrite to a target IRR—effectively setting a ceiling on price and shaping deal terms.

Core Deal Components

Deal terms are designed to reconcile the company's commercial outlook with the investor's risk-adjusted view, typically by combining upfront and contingent components.

Upfront payment: The immediate lump-sum capital provided upon execution of the agreement. Present in approximately 68% of transactions, the upfront payment is the most common deal component—though often not the largest portion of total consideration.

Running royalties: The ongoing payment stream, calculated as a percentage of product sales, paid to the investor over the life of the agreement. This represents the core economic exchange in most royalty transactions.

Milestone payments: Payments contingent upon achieving predefined events, typically divided into two categories. Development Milestones are triggered by regulatory progress, such as IND filing, pivotal trial completion, or marketing approval. Sales Milestones are triggered when the product achieves specific annual revenue thresholds. Sales milestones often represent the largest dollar amounts in a deal's financial structure.

Duration: Often linked to patent expiry or exclusivity periods.

Royalty Calculation Mechanics

How Royalties are Calculated

Royalties are calculated based on net sales, which typically refers to gross sales of a unit of drug product minus specific permitted deductions.

Common permitted deductions include returns, discounts, and certain taxes directly related to

the sale. These deductions usually pertain to the final sale to the end customer or distributor of such drug product.

Notably, deductions might include sales taxes or customs duties explicitly stated in the invoiced price for a unit of drug product and not reimbursed by the buyer.

Running royalty calculations typically follow one of two structures:

Fixed or Flat Royalty: A single, unchanging percentage applied to all sales.

Analysis of 150+ royalty transactions (2020–2025) reveals median rates of 4–6% for approved assets versus 7–10% for development-stage assets—reflecting the risk premium buyers demand for pre-approval uncertainty.

Tiered Royalty: Rates that increase or decrease as sales cross defined thresholds. For example, a structure might provide for a 5% royalty on the first \$100 million in annual sales, 10% on sales between \$100 million and \$200 million, and 15% on sales exceeding \$200 million.

The calculation basis is predominantly net sales (used in 76% of life sciences transactions), followed by gross sales (18%).

Tiered royalties protect your economics across commercial scenarios. Flat rates create value drift—a 7% royalty may capture 25% of project value at \$500M peak sales but only 15% at \$1 billion, effectively penalizing you for outperformance. Tiered structures (e.g., 6% up to \$200M, 8% to \$400M, 10% above) compress this variance, keeping deal economics aligned with original negotiated intent regardless of how the asset performs commercially.

When negotiating tier steepness, recognize the trade-off: accepting higher upfront and milestone payments means transferring development risk to the licensee or investor, which typically results in flatter escalation. Conversely, if you're willing to bear more commercial risk with lower guaranteed payments, you're positioned to negotiate steeper tiers that capture meaningful upside if the product exceeds expectations. Understanding this dynamic allows you to structure deals that reflect your capital needs and risk appetite—whether prioritizing near-term certainty or long-term value participation.

Cap Structures

Hard cap: The royalty obligation terminates immediately once the investor receives a specified multiple of invested capital (e.g., 1.95x).

Cap and tail, or step-down: Once a return threshold is met, the investor's royalty rate steps down significantly—for example, to 15% of the original rate—for the remaining patent life.

Royalty buyers increasingly structure time-based return caps that reward early commercialization while mitigating duration risk. These accelerated payoff provisions create alignment: sellers benefit from reduced total payouts if milestones are achieved quickly, while buyers protect against extended timelines that erode IRR.

Recent deals illustrate the range of structures in market:

- **Ultragenyx/OMERS:** 1.45x return cap if first threshold met, escalating to 1.55x for the second tranche—rewarding rapid achievement with a lower multiple.
- **Nuvation/Sagard:** Tiered by date rather than milestone—1.6x if reached by June 2031, 1.75x by June 2034, and 2.0x thereafter. This structure explicitly prices duration risk into the return requirement.
- **Denali/Royalty Pharma:** 2.5x cap if achieved by Q1 2039, otherwise 3.0x—a 20% premium for extended timelines that compensates for capital being tied up longer.

For biotech executives, these provisions offer negotiating leverage. If you have confidence in near-term catalysts or commercial trajectory, accepting accelerated payoff terms can meaningfully reduce total capital cost. Conversely, if timelines are uncertain, understanding the duration premium helps you evaluate whether the additional payout obligation is justified versus alternative financing. The key is matching deal structure to your asset's risk profile and expected commercialization pathway.

Top-up Payments

Scheduled payments that guarantee investors a minimum IRR if royalty cash flows underperform projections. These provisions protect against downside scenarios—such as slower-than-expected commercial uptake or pricing pressure—while giving sellers flexibility to preserve upside participation if the asset outperforms.

Buyout (Call) Options

Approximately 94-95% of capped synthetic transactions include a buyout right, allowing the issuer to terminate the arrangement early by paying a predetermined amount. This effectively provides a refinancing option if the company's cost of capital improves or the asset outperforms expectations.

Creditor Protections

Following the Mallinckrodt bankruptcy, in which unsecured royalty rights were discharged alongside other creditor claims, investors have demanded enhanced structural protections.

True sale structure: Transactions are structured as a true sale of the royalty interest to avoid recharacterization as a secured loan. This ensures the royalty stream is not part of the originator's bankruptcy estate.

Collateralization: In 2024, 100% of reviewed synthetic royalty transactions were secured by product assets—including intellectual property and regulatory filings—compared with 67% in 2020.

Special Purpose Vehicles (SPVs): Investors increasingly require the underlying intellectual property to be held in a bankruptcy-remote SPV, insulating the asset from the originator's credit risk and providing direct recourse to the collateral.

Valuation is ultimately a negotiation between management's commercial outlook and the investor's risk-adjusted underwriting. The final agreement typically combines upfront proceeds with tiered royalties, milestone payments, and buyout options—aligning incentives and bridging differences in assumptions.

Evolution of Biotech Royalty Finance

What began as an opportunistic purchase of isolated university royalties in the early 1990s has matured into a diversified, global financing market channeling tens of billions of dollars into life-science R&D annually. This section traces the development of pharmaceutical royalty investing across three decades.

The Pioneering Era (1990-2000)

The pharmaceutical royalty market emerged in 1992 when Drug Royalty Corporation (later renamed DRI Capital) launched the first private fund built solely to acquire pharmaceutical royalty streams. The thesis was elegantly simple: future product cash flows could be securitized just like real-estate rents or music royalties.

Four years later, former Lazard banker Pablo Legorreta founded Royalty Pharma in New York, creating a permanent vehicle that aggregated many small royalty interests into a single diversified portfolio. These early moves established the foundational model that would eventually attract billions in institutional capital.

Proof of Concept (2000-2010)

The second phase validated royalty monetization as a legitimate financing tool. University technology transfer offices and research charities began selling royalty rights on blockbuster drugs—particularly HIV and cancer therapies—to raise research endowments. This "non-dilutive advance" model proved especially attractive to academic institutions seeking immediate capital without surrendering equity or control.

New specialist investors entered the market during this period, including Paul Capital's healthcare royalty funds and Cowen's predecessor vehicles, expanding available capital beyond the original pioneers. Transactions remained modest in scale, typically ranging from \$10 million to \$80 million, as both buyers and sellers preferred well-known, post-launch drugs with established commercial track records and manageable remaining patent life.

Institutional Scale Arrives (2010-2020)

The market transformed dramatically as funds began closing at the billion-dollar level. DRI's

Drug Royalty III raised \$1.45 billion in 2013, giving the manager approximately \$3 billion of purchasing power including leverage.

Royalty Pharma emerged as the dominant market participant during this period. SEC filings reveal \$26.4 billion in announced transactions between 2012 and 2023—an estimated 58% share of all royalty financings during that span.

Deal sizes expanded correspondingly. Single assets began changing hands for \$400 million to \$1.1 billion, while multi-asset packages exceeded \$2 billion. Median upfront payments for 2019–2023 reached approximately \$128 million, reflecting both the maturation of the asset class and growing institutional comfort with royalty structures.

Mainstream Acceptance (2020-2024)

Royalty Pharma's 2020 IPO marked a watershed moment, raising \$2.2 billion and valuing the firm near \$17 billion. The successful offering confirmed public-market appetite for royalty-backed investment vehicles and brought unprecedented visibility to the asset class.

Market conditions accelerated adoption. Rising interest rates and a 40%+ decline in biotech equities after 2021 made royalty sales an attractive financing lifeline—particularly compared with highly dilutive stock offerings or double-digit venture-debt coupons. For cash-constrained biotechs, royalty monetization offered runway extension without equity destruction.

Deal structures diversified significantly during this period. Synthetic royalties—arrangements where no existing license exists and the company creates one in exchange for capital—grew at approximately 33% annually across 2020–2024, according to a Gibson Dunn survey of 102 transactions. Caps and milestone tranches became standard features, with companies agreeing to share revenue only until investors received 1.7x to 2.5x their original investment, after which the full stream reverts to the originator.

Acceleration and Innovation (2025-Present)

The year of 2025 demonstrated continued momentum despite challenging equity markets. Deal activity spans therapeutic areas: oncology (tarlatamab, neladalkib), rare disease (Zolgensma, Crysvida), and specialty therapeutics (AMVUTTRA), reflecting investor appetite across risk profiles and commercial stages.

The outlook favors continued growth. Capital-constrained biotechs increasingly view royalty monetization as non-dilutive runway extension), while investor's active deployment signals institutional confidence in royalties as an uncorrelated asset class. As large-cap deal competition intensifies, the fragmented sub-\$100M segment presents opportunity for specialized players able to efficiently source and syndicate middle-market transactions.

Competitive Landscape: Biotech Royalty Investors

The pharmaceutical royalty market features a concentrated group of specialized players competing for a limited pool of attractive opportunities. Competitors span three distinct categories: publicly traded royalty companies, privately held asset managers, and institutional investors such as pension funds.

Publicly Traded Royalty Companies

Royalty Pharma (NASDAQ: RPRX) dominates the large-cap segment. Founded in 1996, the company has deployed over \$22 billion to build a portfolio spanning 45+ commercial products. Royalty Pharma concentrates on transactions exceeding \$500 million, where it commands a 79% win rate by value. This focus leaves meaningful white space below—the firm captured just 5% of transactions under \$100 million over the past decade.

DRI Healthcare Trust (TSX: DHT.U) occupies a distinct mid-market niche, targeting transactions between \$25–150 million. Since 1989, DRI has deployed over \$3.0 billion across 77 royalties on 50 drugs, with specialized expertise in oncology, rare diseases, ophthalmology, and immunology.

Ligand Pharmaceuticals (NASDAQ: LGND) takes a differentiated approach, acquiring royalties primarily through technology licensing and partnering arrangements rather than outright purchases.

Privately Held Companies and Asset Managers

HCR Partners (formerly Healthcare Royalty Partners) has deployed approximately \$5.7 billion across 88+ transactions, pursuing both growth equity and fixed-income strategies with average deal sizes around \$150 million.

OrbiMed Healthcare Funds, TPG Sixth Street Partners, and Blackstone Life Sciences bring substantial alternative asset management capital to the space, typically targeting larger transactions ranging from \$300 million to \$2+ billion.

Pension Funds

CPP Investment Board and OMERS participate opportunistically, generally favoring large transactions (\$500 million to \$1+ billion) but occasionally pursuing smaller deals when attractive opportunities arise.

Innovative Financing Platform: BioPalace

BioPalace is a technology-enabled platform that syndicates diligenced biotech royalty opportunities to a private network of institutional and high-net-worth investors. While incumbents face structural constraints—large fund sizes demanding \$50M+ outsized minimum capital deployments, rigid investment mandates, and return thresholds that make smaller deals uneconomical—a significant market segment remains underserved.

By conducting the due-diligence upfront, BioPalace enables investors to participate in pre-vetted opportunities without bearing individual diligence costs. This syndicated approach unlocks sub-\$50 million transactions overlooked by traditional players—giving originators access to competitive non-dilutive capital while offering investors exposure to an asset class historically reserved for specialized funds.

Transaction Process

Transaction timelines vary based on complexity and party responsiveness, but a well-managed process typically spans 8 to 12 weeks from initial engagement to closing. The following table illustrates a representative 8-week process, highlighting key activities, deliverables, and decision gates at each stage:

Week	Key activities and deliverables	Decision gate
Week 1	Initial screening call; NDA execution; receipt of initial data package	Go/no-go decision on dedicating resources to preliminary diligence
Week 2	Preliminary diligence (commercial, clinical); internal review	Submission of non-binding indication of interest (IOI)
Week 3	Management presentations; data room access granted	Go/no-go decision on committing to full diligence
Week 4-6	Full diligence workstreams (commercial, medical, IP, finance); weekly diligence calls	Internal diligence review and preliminary findings
Week 7	Finalize valuation model; draft term sheet	Final Investment Committee approval
Week 8	Negotiate and execute definitive documents; fund transfer	Transaction close

Due Diligence

The cornerstone of this process is comprehensive due diligence. Because the investor is underwriting asset-specific risk without operational control, diligence must thoroughly evaluate every material factor affecting future cash flows.

Clinical diligence encompasses clinical trial design, biostatistics, patient-level data, pharmacokinetics and pharmacodynamics (PK/PD), and toxicology. Typically includes consultations with key opinion leaders (KOLs) to validate the clinical thesis.

Commercial diligence covers market sizing, competitive landscape analysis, and go-to-market strategy assessment. Includes detailed forecasting of pricing, payor access, and gross-to-net dynamics to support the revenue model.

Regulatory, IP and manufacturing diligence involves thorough analysis of the global intellectual property estate, potential litigation scenarios, manufacturing capacity and readiness, and regulatory correspondence with agencies such as the FDA and EMA.

Legal and governance diligence encompasses detailed review of all relevant contracts—including existing licensing agreements—to ensure clarity and mitigate legal risk. Also includes assessment of the counterparty's management team and governance practices.

The combination of rigorous diligence, structural flexibility, and favorable market dynamics has established royalty financing as a compelling capital strategy in life sciences—one that merits serious consideration alongside traditional equity and debt alternatives.

Risk

Successful transactions require careful evaluation across four interconnected risk domains.

Commercial risk: Can the product achieve sustained sales?

Market share, pricing, payer access, and competitive entry determine the size and duration of the royalty stream. Early launch data are often volatile, so best practice is to build a bottom-up forecast anchored in market sizing, pricing and gross-to-net assumptions, uptake curves, persistence, and erosion—then pressure-test against competitor scenarios and update as new data emerge.

Clinical and regulatory risk: Does the data support adoption and a strong label?

Small differences in efficacy, safety, and tolerability can materially shift prescribing behavior. Cross-trial comparisons introduce uncertainty given differences in patient populations and study design. High-quality diligence translates clinical conclusions into explicit adoption assumptions, then tests downside cases where a competitor advances the standard of care or the label narrows.

Legal and structural risk: Will payments remain enforceable under stress?

In royalty transactions, legal structure can represent the most severe risk—particularly in bankruptcy. Poorly structured rights can be reduced to weak, unsecured claims, and operational dependencies (manufacturing, supply, know-how) can disrupt royalty payments even when product demand exists.

Sophisticated agreements strengthen enforceability through precise royalty definitions, reporting and audit rights, and clear remedies. Bankruptcy-protective structuring may include security interests, licensing structures that preserve leverage, bankruptcy-remote SPVs, and isolation of critical functions from financially weaker counterparties.

Financial risk: Is the implied cost of capital superior to alternatives?

Royalty pricing reflects risk-adjusted future cash flows discounted to present value, plus an investor return premium. As a result, the purchase price will fall below theoretical fair value.

Boards should evaluate the implied cost of capital under base and downside scenarios, comparing royalty financing against equity and debt across multiple dimensions: dilution, fixed payment

burden, covenants, future financing constraints, and M&A flexibility. Structural levers—upfront versus contingent value, tiers, milestones, and buyout options—can be used to align buyer and seller views on valuation.

Impact on Future M&A and Partnering

A common concern is whether a royalty burden makes the company less attractive to a future acquirer. This concern, while understandable, is generally overstated.

The "Poison Pill" myth: Investment bankers and executives generally reject the notion that synthetic royalties prevent acquisitions. Major transactions—including Pfizer's \$12 billion acquisition of Biohaven and Gilead's \$21 billion acquisition of Immunomedics—proceeded despite existing royalty obligations on target assets.

Change of control provisions: However, companies must carefully evaluate put rights. In approximately 85% of synthetic royalty transactions, the investor has the right to demand immediate repayment (often at a premium) if the company is acquired. This functions similarly to a debt payoff at acquisition and must be factored into purchase price negotiations. Acquirers typically address this obligation through purchase price adjustments, escrow arrangements, or direct assumption of the royalty.

Effective risk management in royalty transactions requires integrated analysis across all four domains, with particular attention to structural protections that preserve value under stress scenarios.

Considerations During Royalty Process

The preceding sections of this guide have addressed *what* royalty financing is, *when* to pursue it, and *how* deals are structured and priced. This section addresses the legal, tax, and accounting dimensions that arise *during* the transaction process itself – the technical considerations that determine whether a royalty monetization achieves its strategic objectives or creates unintended consequences that compound over the life of the deal.¹

More than any other type of financing, royalty monetizations require coordinated thinking across multiple disciplines. Legal, finance, accounting, tax, and business development perspectives must be aligned, and the consequences of misalignment are not abstract – they manifest as cash flow leakage, balance sheet distortion, and structural constraints that can persist for 15 to 20 years.

Legal

The Restrictiveness Spectrum

As discussed in the Structure and Economics section of this guide, royalty financing structures range from traditional monetizations to synthetic royalties to royalty-backed debt.² What matters for purposes of the legal process is understanding that **restrictiveness escalates along this spectrum**. A traditional uncapped royalty effectively removes a strip of economics from the

1. WilmerHale/Jaywood Capital Advisors/EY webinar on Royalty Monetization Transactions, February 2026.

2. See the Structure and Economics section of this guide for a detailed treatment of cap structures, return multiples, deal component mechanics.

company; restrictions relate only to the purchased asset, and there is minimal impact on the rest of the business. Capped traditional royalties introduce a return ceiling that makes the arrangement more financing-like. Synthetic royalties involve progressively more restrictive terms – often including liens on underlying IP and performance-based triggers. At the far end, royalty-backed debt resembles a senior secured credit facility with all-asset liens and strict covenants.

This spectrum matters because it dictates every downstream legal consideration: how covenants are drafted, whether intercreditor arrangements are required, how the structure interacts with M&A, and the degree of operational constraint imposed on the company. CEOs and boards must look beyond what a deal is called and into its actual terms to understand where on this spectrum a proposed transaction falls.

Royalty Definition and Duration

The biggest value driver in any royalty transaction is not the headline rate – it is the rulebook that determines where, when, and on what base royalties are paid. In partner licenses, pharma often pushes to pay only in countries and periods where enforceable patent claims cover the product, while biotech argues royalties should apply wherever the product sells because the license delivers value beyond patents, including proprietary know-how and, in many cases, regulatory exclusivity. As a result, royalties are typically defined on a country-by-country and product-by-product basis, running until the latest of patent expiry, a fixed post-launch tail (often 10 to 15 years), and expiration of regulatory exclusivity.

From a financing perspective, investors price and structure around the provisions that can compress duration or reduce the effective royalty rate: "know-how only" step-downs after patent expiry, anti-stacking reductions when third-party IP is required (often capped at a maximum reduction, for example 50% of the base rate), combination product allocation rules that narrow the royalty base, and sub-licensing economics that shift value when a program is handed downstream. In a monetization, these terms already exist, so the work is diligence and quantifying cash flow leakage under downside scenarios. In a synthetic royalty, these same concepts become deliberate design choices negotiated up front to balance cost of capital, strategic flexibility, and long-term upside.

Audit Mechanics and Reporting

A mature royalty clause includes robust audit mechanics: audit rights with defined frequency limits and record-retention periods; clear scope including affiliates and sublicensees; cost-shifting if variances exceed an agreed threshold; interest on underpayments and timing of true-ups; and tight confidentiality and use-limitations around audit findings. These provisions are legal in nature, but they directly shape accounting confidence in royalty accruals and true-ups, and strengthen tax defensibility around deductions, transfer pricing support, and withholding positions across jurisdictions. Their importance increases in proportion to deal complexity – and as discussed in the Accounting section below, the quality of reporting data becomes audit-critical once a monetization is in place.

Intercreditor Dynamics

A royalty transaction's position on the restrictiveness spectrum has direct implications for how it coexists with other financing instruments in the company's capital structure.

Traditional royalties generally play well with other transactions. Because they function as asset purchases, the agreement focuses on the specific revenue stream, and the restrictions do not extend into broader company operations. Stacking senior secured debt alongside a traditional royalty is straightforward, provided there is no lien on intellectual property, and no complicated intercreditor arrangement should be needed.

Synthetic royalties are more complex. They often involve a lien on underlying IP, may include catch-up payments that occur before debt maturity, and require intercreditor arrangements to function alongside senior secured debt. The coexistence works most easily when the synthetic covers one product among many and the remaining products provide separate collateral value for the senior lender.

Royalty-backed debt creates the greatest constraint – stacking two whole-company financings side by side generally does not work. Convertible debt, however, generally coexists with all royalty types, subject to parameters like total caps and maturity falling outside the royalty facility maturity.

A critical documentation point: credit agreements must clearly distinguish traditional royalties from synthetic royalties. If both are lumped together and require intercreditor approval, the senior lender effectively gains a blocking right on traditional royalties – which, by their nature as asset sales, should not require complicated intercreditor arrangements. This distinction must be addressed during documentation, not discovered after closing.

Long-Tail Legal Risks

Synthetic royalties can have 15 to 20-year tails, compared to typical 5-year debt facilities. This extended duration creates legal risks that are difficult to predict at closing and must be addressed deliberately in the term sheet – not deferred to definitive documentation.

Lien scope creep. Intellectual property liens can extend further than intended, sweeping in foundational or platform IP beyond drug-specific assets. This is one of the most critical structural questions in any synthetic royalty. When the Common Pitfalls section of this guide warns against "overly restrictive covenants or broad lien grants," it is this dynamic in particular that warrants attention. IP teams and legal experts should be engaged early to define document definitions precisely and prevent unintended leakage of foundational assets into the collateral pool.

Covenant step-downs. Companies should negotiate for restrictive covenants to fall away once the investor has been substantially de-risked – for example, upon reaching 1.5x their invested capital or a specified internal rate of return. Without these step-downs, covenants designed for the early, higher-risk period of a deal can become operationally constraining years later when the risk profile has fundamentally changed. This negotiation point is closely related to the cap structures discussed in the Structure and Economics section; just as return caps terminate the royalty obligation, covenant step-downs should terminate operational restrictions.

Subjective defaults. Material adverse effect clauses and "commercially reasonable efforts" covenants around specific products can be leveraged by investors who are uncomfortable with a deal's trajectory – to extract concessions, even when a formal default would not be called. These

provisions function as soft leverage, and their scope should be carefully circumscribed. Companies should resist vague, open-ended formulations and instead tie these provisions to objectively measurable criteria wherever possible.

Unforeseen covenant conflicts. Over an 8 to 15-year deal period, events will arise that cause restrictive covenants to conflict with operational needs in ways that were not contemplated at closing. The longer the tail, the greater the likelihood that the company's strategic direction will diverge from the assumptions embedded in the original documentation. This reality is what makes durability – the principle that the financing puzzle is not static in time – so important in royalty deal structuring.

Tax

Tax Characterization

Tax characterization is the first domino in any royalty monetization or synthetic royalty, because it dictates withholding, deductibility, and how authorities will view the cash flows. The same payment stream can be treated very differently depending on whether it is drafted and substantiated as a royalty for the use of IP, a service fee (R&D, tech transfer, manufacturing, or regulatory support), a cost-sharing reimbursement, or consideration for a sale of IP (or transfer of all substantial rights).

When characterization is muddled, the consequences are not academic – it can trigger the wrong withholding rate and treaty position, disallowed deductions, and transfer-pricing adjustments with penalties. This is especially acute in biotech, where "licenses" often bundle real services and where consideration may implicitly cover both patents and know-how. Clean allocations and contemporaneous support are essential to protect net proceeds and avoid surprise leakage.

Debt vs. Non-Debt Treatment

Beyond characterization of the payment stream, the tax analysis must determine the underlying substance of the agreement itself: is it debt, non-debt financing, or an outright sale of IP? Debt treatment for tax purposes is uncommon in royalty monetizations – it requires a stated payback schedule, stated interest rate, and evidence the company could have obtained traditional debt on comparable terms.

When the arrangement is not debt for tax purposes – the more common outcome – the upfront cash receipt creates current taxable income. The critical modeling questions include whether there are sufficient current-year R&D and G&A deductions to offset the tax on the upfront payment; whether NOL carryforwards or R&D credits are available and usable (complex limitation rules apply); and whether, when the company ultimately pays back the royalty investor, those payments generate current deductions in the year paid.

The accounting-tax treatment gap. A practical complication arises from the frequent divergence between accounting and tax treatment of the same transaction. Under US GAAP, most royalty monetizations are recorded as debt on the balance sheet (as discussed in the Accounting section below), but for tax purposes the same arrangement is often treated as current income. This mismatch creates deferred tax assets or liabilities that must be tracked and can affect the

company's effective tax rate, financial reporting, and investor communications. Companies should model both treatments in parallel from the outset to avoid surprises at the first reporting period.

Cross-Border Tax Considerations

When either the royalty-paying counterparty or the investor is non-US, a separate layer of tax complexity arises. Cross-border royalty arrangements require careful structuring to avoid unanticipated economic leakage – a consideration that is particularly relevant for SPV-based syndication structures where the identity and jurisdiction of the ultimate investor may differ from the contracting entity.

The foundational question is the income tax treaty between the United States and the counterparty's jurisdiction. Treaty rates on royalty payments vary significantly, and the company must have proper documentation in place to claim reduced withholding rates. If withholding tax does apply, the next question is whether it has value to the company: many development-stage biotechs in net operating loss positions cannot use foreign tax credits, rendering the withholding a pure economic cost rather than a recoverable tax attribute.

Gross-up provisions, which shift the economic burden of withholding taxes to one party, should be evaluated and negotiated as part of the deal terms. A subtler risk arises from assignment rights: if the counterparty has the right to assign its position, it could assign to an entity in a jurisdiction that creates withholding tax obligations not contemplated in the original deal. On the repayment side, the company must determine whether it is paying a US or foreign party and whether it needs to act as a withholding agent for the IRS. These issues should be part of the standard deal evaluation process, not afterthoughts raised during documentation.

Accounting

True Sale vs. Financing Classification

The pivotal accounting question in any royalty monetization is whether the structure qualifies as a "true sale" or is classified as a financing under ASC 470. Because biotechs often maintain significant involvement in the underlying asset – through patent maintenance, clinical oversight, or audit and collection functions – these deals are frequently recorded as liabilities rather than immediate income.

True sale treatment is very difficult to achieve in practice. Traditional monetizations have generally not achieved true sale accounting because they are structured as back-to-back arrangements rather than contract novations and involve some element of continuing involvement.¹ The GAAP guidance on "sales of future revenue" creates a strong presumption that these arrangements are debt-like precisely because of this continuing involvement.

Accounting for Traditional Monetizations

Under the financing model, upfront proceeds trigger ongoing interest expense calculated via an effective interest approach. This creates a direct link between the company's commercial forecast

1. See the Creditor Protections and Common Pitfalls sections of this guide for a detailed treatment of true sale structuring, Mallinckrodt precedent, and SPV mechanics.

and its P&L: if sales estimates shift, the interest expense must be reassessed, making the quality of forecasting and the governance around forecast updates audit-critical rather than merely a valuation exercise. Debt accounting also requires evaluation for embedded derivatives and complex judgments to regularly recompute the effective interest rate based on changing cash flow projections – adding a recurring reporting burden that persists for the life of the deal.

The practical risk lies in the complexity of the underlying license terms and the Net Sales reporting lag. Since royalties are tied to downstream sales filtered through intricate definitions of rebates, chargebacks, and FX adjustments, data integrity is paramount. Before monetizing, leadership must ensure the company can support clean accruals and true-ups while validating tier calculations and contractual offsets like royalty stacking or combination allocations. The audit rights and reporting packages discussed in the Legal section above are not merely protective provisions – they are the raw material for satisfying the rigorous transparency requirements of both auditors and investors.

Accounting for Synthetic Royalties

Synthetic royalties introduce a fork in accounting treatment that depends on the development stage of the underlying asset – a distinction that has no parallel in traditional monetizations.

When **significant R&D risk remains** – for example, when the asset is pre-clinical or still undergoing substantive Phase 3 activities – the funding payments may be recognized either as a reduction of R&D costs or as income. If the drug succeeds, future royalty payments would then be recorded as cost of goods sold in the period earned. The key determinant is whether there is a substantive and genuine transfer of risk from the company to the investor. This treatment can be favorable to the company's reported financials, as it avoids recording the arrangement as a liability.

When **no significant R&D risk remains** – for example, when regulatory approval has already been obtained – the arrangement is likely accounted for as debt, requiring the entity to impute an effective interest rate at each reporting period based on forecasted sales. For companies considering the timing of a synthetic royalty transaction, this distinction has practical implications: a transaction structured before approval may receive more favorable accounting treatment than the same transaction structured after approval, even if the economic terms are identical.

Phantom Debt: The Hidden Balance Sheet Risk

One of the most underappreciated risks in royalty monetization – particularly for synthetic royalties – is the phenomenon of **phantom debt**. A company may carry a potential obligation to pay money that never materializes because it is contingent on product performance. From a legal and accounting perspective, however, this contingent obligation can appear as a large liability on the balance sheet even when the probability of full payment is low.

Phantom debt creates several cascading problems. It can drag on equity value over time, even when actual cash requirements are manageable. Artificially elevated leverage ratios can limit the company's access to other financing vehicles and deter potential strategic partners – compounding the financing flexibility concerns discussed in the Common Pitfalls section of this guide. In extreme cases, the distorted debt-to-equity calculation can threaten exchange listing requirements; Nasdaq, for example, imposes minimum equity thresholds that phantom debt can erode. Put rights that may never be exercised nonetheless sit on the balance sheet and create persistent headwinds for the

company's perceived financial health.

The risk is most acute in downside scenarios. When a synthetic royalty obligation represents a large percentage of enterprise value – potentially 50% or more if the product underperforms – there is effectively no residual equity value. This discourages both potential acquirers and new equity investors. Synthetic royalty investors in this scenario behave like senior lenders protecting their LP interests, and negotiations become zero-sum. The disconnect between how these investors negotiate and the contingent nature of the actual obligation can create significant complications in restructuring environments.

For this reason, deal structuring should be deliberate about which features are included. The features that make synthetic royalties "debt-like" – and therefore most likely to generate phantom debt – include large change-of-control payments, put rights triggered by performance metrics (which function like revenue covenants), true-up payments over time that reduce genuine risk-sharing, and minimum payment floors or minimum multiples owed if milestones are not achieved. Avoiding unnecessarily debt-like features can significantly reduce phantom debt burden on the counterparty and make the financing partner more attractive to the company.

FASB Standard-Setting Developments

The Financial Accounting Standards Board has recently completed stakeholder outreach to solicit standard-setting ideas, and alternative forms of financing – including royalty monetizations and accounting for sales of future revenue – were among the most popular areas of response. While no formal decisions have been made as of early 2026, it is possible that FASB will undertake a project that could change accounting treatment for some or all royalty arrangements.

Given the long time horizons of these deals, monitoring FASB developments is important for any participant in the royalty monetization market. If FASB moves away from the automatic debt presumption for traditional royalties, this could make royalty monetizations significantly more attractive to biotech companies by removing the balance sheet concerns that currently dampen enthusiasm – effectively eliminating the phantom debt problem for an entire category of transactions. Conversely, tighter guidance could create additional reporting burden. Companies active in this space should consider engaging directly on in-flight projects that could affect their capital structure planning, as FASB welcomes both formal and informal outreach from stakeholders.

Case Studies

The following case studies illustrate how companies at different stages have deployed royalty financing to achieve strategic objectives. Each demonstrates principles discussed throughout this guide: the compatibility of royalties with M&A, the value of staged monetization, and the emergence of large-scale hybrid structures.

Case 1: Biohaven (Funding a CGRP Franchise and Achieving a Premium Exit)

Context

Biohaven required substantial capital to develop and commercialize its CGRP migraine franchise (Nurtec ODT and zavegepant) while preserving control and deferring an outright sale.

Transaction Structure

Partner: Royalty Pharma

Total size: Up to \$450 million, comprising up to \$250 million in development funding for zavegepant (Phase III program) and \$200 million in commercial launch preferred equity for Nurtec ODT.

Economics: Royalties of 0.4% on global Nurtec ODT net sales and up to 3% on zavegepant net sales (contingent on regulatory approvals), plus success-based milestones ranging from 0.6x to 2.95x of the zavegepant funding amount over approximately 10 years. The preferred equity was structured to deliver approximately 12% IRR through fixed payments from 2025 to 2030.

Strategic Rationale

The transaction provided non-dilutive capital to extend runway and broaden the pipeline beyond a single asset. It allowed Biohaven to fund oral and intranasal zavegepant development while supporting the Nurtec commercial launch without a dilutive equity raise. The structure preserved control and positioned the company for a strategic exit on stronger terms.

Outcome

Pfizer acquired Biohaven for \$11.6 billion in October 2022. Royalty obligations were addressed as part of the M&A economics, and the transaction proceeded smoothly. This outcome directly contradicts the concern that royalties prevent acquisitions.

Takeaway

A well-structured royalty plus preferred equity package can finance both late-stage development and commercial launch, preserve equity, and still enable a premium acquisition.

Case 2: PTC Therapeutics (Staged Monetization of a High-Value SMA Royalty)

Context

PTC Therapeutics held a valuable royalty on Roche's Evrysdi (risdiplam) for spinal muscular atrophy but required large-scale, non-dilutive capital for its own R&D programs and balance sheet.

Transaction Structure

Partner: Royalty Pharma

A sequence of transactions from 2020 to 2025 culminating in full buyout. In 2023, Royalty Pharma acquired additional Evrysdi royalty from PTC for \$1.0 billion upfront, plus options for PTC to sell additional tranches in five equal installments. In 2025, Royalty Pharma agreed to acquire the remaining Evrysdi royalty for \$240 million upfront plus up to \$60 million in sales-based milestones.

Final structure (post-2025): Royalty Pharma owns 100% of the tiered Evrysdi royalty, which pays 8% on annual net sales up to \$500 million, 11% on sales between \$500 million and \$1 billion, 14% on sales between \$1 billion and \$2 billion, and 16% on sales above \$2 billion.

Strategic Rationale

PTC converted a volatile, long-dated asset into more than \$1.2 billion of upfront cash plus milestones across several years. The approach de-risked exposure to a single partnered product while funding internal pipeline development and operations. PTC retained upside through staged options before final monetization, allowing market performance to inform timing.

Outcome

PTC raised over \$1 billion non-dilutively while Royalty Pharma consolidated a large, tiered royalty on a global SMA therapy. The Evrysdi transaction became a notable example of staged royalty monetization for a mid-cap biotech with a partnered asset.

Takeaway

For companies with valuable out-licensed assets, staggered royalty sales can smooth cash inflows, reduce concentration risk, and preserve optionality until market performance provides clarity on optimal monetization timing.

Case 3: Revolution Medicines (A \$2 Billion Hybrid Structure)

Context

Revolution Medicines is developing daraxonrasib, a direct RAS(ON) multi-selective inhibitor in Phase III for pancreatic and lung cancers—an expensive late-stage program with broad indications. In mid-2025, the company projected cash runway into the second half of 2027 but sought to eliminate this constraint and fund an expansive development and commercialization

plan.

Transaction Structure

Partner: Royalty Pharma

Total size: Up to \$2.0 billion in a hybrid structure comprising up to \$1.25 billion in synthetic royalty on daraxonrasib (including \$250 million upfront) and up to \$750 million in senior secured term loan (SOFR + 5.75%, with 3.5% SOFR floor), maturing six years after first draw.

Key terms: The royalty runs for 15 years on global net sales of daraxonrasib, with a declining rate over time. No royalties apply to annual sales exceeding \$8 billion, preserving substantial upside for shareholders in scenarios of exceptional commercial success. Term loan tranches are tied to FDA approval and sales milestones, with Royalty Pharma retaining the option to syndicate the loan.

Strategic Rationale

The structure provides up to \$2 billion of long-term capital while allowing Revolution to retain full control over development and global commercialization. The hybrid approach splits risk: the royalty component aligns with long-term product success while the debt component provides traditional leverage once the asset is de-risked. The \$8 billion royalty cap preserves meaningful upside for Revolution's shareholders in extreme success scenarios.

Outcome

Revolution publicly positioned the transaction as establishing an extended cash runway, eliminating its prior runway constraint. Royalty Pharma characterized the deal as demonstrating “a new funding paradigm” for innovative biotechs, highlighting the ability to provide capital at scale while preserving company control.

Takeaway

Large, late-stage platform companies can use hybrid royalty-plus-debt structures to raise \$1-2 billion or more while retaining control and meaningful upside, particularly when the mechanism and indications support multi-billion-dollar peak sales potential.

Common Pitfalls

Pitfalls in royalty financing span legal structuring errors that expose investors to bankruptcy risk, strategic missteps by companies that constrain future flexibility, and modeling failures that undermine deal economics. Based on market experience and recent case law, these pitfalls can be categorized into four domains: legal and structural vulnerabilities, capital seeker risks, commercial and clinical risks, and valuation challenges.

Legal and Structural Pitfalls

Recent court rulings have highlighted significant risks in how royalty transactions are drafted and secured.

Bankruptcy recharacterization (The Mallinckrodt Precedent): A critical pitfall is structuring the transaction in a manner that fails to qualify as a true sale or to adequately secure the royalty stream. In the Mallinckrodt bankruptcy proceeding, a royalty sale was recharacterized as an unsecured claim rather than a property right, meaning the investor recovered only a fraction of the claim value while the debtor continued to sell the product. To mitigate this risk, investors now require true sale legal opinions or security interests in the underlying intellectual property. As noted in the Risk section, 100% of 2024 synthetic royalty transactions were secured by product assets, compared with 67% in 2020.

License transferability and consents: A frequent obstacle is the failure to obtain necessary consents from the underlying licensee (the marketer). If the license agreement prohibits assignment without consent, a royalty buyer may rely on statutory overrides under UCC Section 9-406 to perfect the payment stream, but this does not extend to ancillary rights such as access to sales reports. Without consent to share royalty reports, the buyer operates without visibility into underlying sales performance.

Termination of underlying license: A critical risk for buyers is termination of the license agreement between the IP holder (seller) and the marketer. If the license is terminated, the royalty stream ceases. Purchasers must negotiate rights to require relicensing of the IP to preserve the revenue stream.

Pitfalls for the Capital Seeker (Biotechs and Universities)

For the company or institution selling the royalty, the primary risks involve valuing the asset incorrectly or constraining future growth.

Loss of future financing flexibility: A significant pitfall in synthetic royalty transactions is agreeing to overly restrictive covenants or broad lien grants. Liens on company-wide assets can limit a biotech's ability to raise additional debt or layer in future financing, potentially constraining pipeline development.

Timing the sale incorrectly: Selling immediately upon FDA approval may seem attractive, but often results in a lower price due to launch uncertainty. Waiting until commercial sales stabilize

typically reduces buyer risk premiums and yields better pricing. The trade-off is that immediate capital needs may necessitate accepting launch-stage pricing.

Sub-licensing revenue traps: In academic or early-stage licenses, a poorly defined sub-licensing revenue clause can inadvertently require a company to share revenue from its own intellectual property or equity transactions with the licensor, rather than only revenue attributable to the licensed patent. Careful contract drafting is essential.

Royalty stacking: Licensees may fail to negotiate anti-stacking provisions. Without these protections, if additional third-party intellectual property must be licensed to commercialize a product, the company may face multiple royalty obligations that substantially erode product margins.

Commercial and Clinical Risk

For the royalty investor, risks center on the commercial and clinical reality of the underlying drug diverging from forecast assumptions.

Binary clinical risk: Investing in development-stage assets carries the risk of clinical trial failure or regulatory rejection. If a drug is not approved, the royalty stream is worthless. This binary risk cannot be managed once capital is deployed, which explains investor preference for approved products and late-stage Phase III assets with positive data.

Commercial underperformance: Even approved drugs can fail to meet sales expectations due to slow market adoption, poor reimbursement coverage, or insufficient demand. If the sales trajectory is flatter than the anticipated growth curve, investor returns will be materially lower than modeled.

Patent cliffs and generic entry: Royalty stream value declines significantly upon loss of exclusivity. A common pitfall is underestimating the speed or likelihood of generic or biosimilar entry, which can be accelerated by legal challenges (such as Paragraph IV certifications under the Hatch-Waxman Act) that invalidate patents earlier than modeled.

Interest rate mismatch: Rising interest rates can compress returns for royalty investors who use leverage. If an investor funds a transaction using floating-rate debt while royalty receipts are fixed or grow slower than funding costs, profit margins compress accordingly.

Valuation and Modeling Risk

Forecasting errors: Valuation relies heavily on long-term sales forecasts. Misjudging the competitive landscape—for example, failing to anticipate a superior competing product—can render a royalty investment competitively displaced before the investment is recouped.

Ramp and launch dynamics: Launch curves are rarely smooth; slower-than-expected uptake, access delays, or indication sequencing can materially reduce early-period cash flows and lengthen the time to reach the investor's target multiple. Conversely, an unexpectedly steep ramp can shorten the payback period and increase the effective IRR, but also raises the risk that a capped structure returns less than modeled if peak sales materialize faster than anticipated.

Currency fluctuations: Since royalties are often paid on global sales, significant foreign exchange volatility can reduce actual cash received by the investor. Hedging strategies can mitigate but not eliminate this risk.

The Path Forward

The biopharma funding landscape has shifted significantly over the past five years. Royalty financing has evolved from a niche alternative to an established capital source, with the market reaching a record \$10 billion in 2025, approximately 40% above five-year averages. Institutional investors including Blackstone, Blue Owl, and KKR have entered the space at scale, creating competitive dynamics that benefit companies seeking capital.

The central thesis of this guide: Royalty financing is not a mechanism to avoid or pursue as a last resort. Rather, it is a strategic tool that merits rigorous evaluation and selective deployment to optimize capital structure, preserve equity, and accelerate growth.

Decision Framework

Three questions determine whether royalty financing merits serious consideration.

1. What is your asset development stage? Royalty financing is viable for Phase III assets with positive data and excellent for approved or commercial products. It is not viable for Phase I or Phase II assets.
2. What capital do you need? Royalty financing is optimal for under \$500 million. For amounts exceeding \$1 billion, equity or strategic partnerships are generally more appropriate.
3. Is equity preservation critical? If maintaining ownership is important to founders and the board, royalty financing offers clear advantages over equity alternatives.

Companies answering yes to all three questions should include royalty financing in their capital strategy evaluation.

The Economic Comparison

Many executives dismiss royalty financing based on misconceptions about cost. The comparison with alternatives is instructive (Table A).

Consider a company needing \$75 million for a Phase III trial and initial commercialization. Option A raises \$75 million in Series B equity at typical 25% dilution, reducing founder ownership from 30% to 22.5%. Option B raises \$75 million through a synthetic royalty at 7% on net sales with a 2.0x cap. If the product succeeds with \$300 million peak sales, the founder retains full equity and benefits from the royalty cap, which terminates payments after the investor receives 2.0x return. For products with strong commercial potential, royalties often deliver lower effective cost than equity dilution. Table B provides a comprehensive comparison

across these critical factors.

Table A. The economic comparison between financing instruments.

Instrument	Effective Cost	Dilution Impact	Flexibility
Equity (Series B)	20-30% dilution	Major (founder ownership drops significantly)	Investors take board seat, veto rights
Venture Debt	10-14% interest + warrants	Minimal (1-2% warrant dilution)	Some covenants; limited operational impact
Royalty (Approved Product)	Mid-teens IRR (10-15% cost)	Zero equity dilution	Minimal; revenue-linked only
Royalty (Phase III)	Higher IRR (16-20% cost)	Zero equity dilution	Milestone-based structure

Table B. Comprehensive comparison during financing opportunity evaluation.

Factor	Royalties	Equity	Debt	Pharma Partnering
Cost of Capital	Low to medium	High	Low	Very high
Dilutive to Equity	No	Yes	No	N/A (trades economics/control)
Operational Control	Retained	Retained	Restricted by Covenants	Ceded
Strategic Optionality	High	Retained	Restricted by Covenants	Low
Retention of Economics	Very high	Diluted	High	Low
Risk Sharing	Yes (development & commercial)	Yes	No	Yes
Market Sensitivity	Low	High	Medium	Low
Administrative Complexity	None	Low	Medium	High
Funding Stage	Post proof-of-concept	All stages	Post-approval	All stages

Addressing Common Concerns

Will royalty financing prevent acquisition? No. Recent major acquisitions including Pfizer's \$11.6 billion acquisition of Biohaven and Gilead's \$21 billion acquisition of Immunomedics proceeded despite royalty obligations. Royalties are a cost to manage in M&A, not a deal-killer. Resolution typically involves the acquirer reducing the purchase price by the royalty's net present value, assuming the royalty obligation, or negotiating a buyout with the investor.

Is a 6-8% royalty expensive? Compared to equity dilution, often not. A 25% Series B dilution costs more long-term than a 7% royalty with a 2.0x cap. For products exceeding sales forecasts, the royalty cap terminates payments while the company retains full equity.

What if sales fall short of forecast? This illustrates a key advantage of royalty structures. Unlike debt, which requires fixed payments regardless of sales performance, royalty payments scale with actual results. If the product generates \$150 million in sales instead of \$300 million forecast, the royalty burden is proportionately lower.

Will investors micromanage the business? Rarely. Royalty investors are financial partners, not strategic ones. Board seats are uncommon, appearing in fewer than 5% of transactions. Most oversight is limited to quarterly reporting, annual audit rights, and consent requirements on asset sales or bankruptcy.

What if interest rates rise? Rising rates increase investor discount rates, potentially reducing valuations. However, upfront capital has already been received, deal structures can adjust through milestone increases or rate modifications, and investors have strong incentives to close transactions rather than walk away at late stages.

Market Outlook: 2026 and Beyond

Based on current trajectories and fundamental market drivers, the royalty financing market appears positioned for continued expansion. Annual transaction volume is expected to reach \$15–20 billion by 2028, driven by broader investor participation and increasing issuer sophistication.

Several structural shifts are reshaping the market. Synthetic royalties—historically confined to late-stage assets—are projected to exceed 60% of total market volume as investors grow comfortable with clinical-stage risk, potentially enabling Phase II synthetics by 2028. Hybrid structures combining royalty, debt, and equity elements are emerging as the preferred approach for complex transactions, displacing single-instrument financing as the default. International activity is accelerating, with European and Asian companies representing a growing share of both issuers and investors. New capital sources, including impact investors and ESG-focused funds, are entering the market and expanding the buyer base.

For companies, these trends translate into meaningful advantages. Capital availability is increasing while pricing becomes more competitive. Deal structures offer greater flexibility as market participants accumulate experience with diverse transaction types. Closing timelines are compressing as documentation standardizes and due diligence processes mature. Perhaps most significantly, earlier-stage companies are gaining access to royalty capital that was previously available only to commercial-stage assets.

Final Recommendations

- Royalty financing is not a fallback option—it is a legitimate and increasingly mainstream capital strategy appropriate for companies with Phase III or approved products requiring \$50–500 million in capital.
- Royalty financing often costs less than equity dilution. In representative scenarios—comparing 25% Series B dilution against a 7% royalty with a 2.0x cap—royalties frequently prove economically superior when analyzed on a cost-of-capital basis.
- Royalty financing does not prevent M&A. Major acquisitions routinely proceed with royalty obligations in place. Royalties represent a cost to manage, not a transaction impediment.
- Transaction success depends on preparation and process discipline. Companies with comprehensive data rooms, realistic forecasts, experienced counsel, and competitive processes achieve the fastest closings at the most favorable terms.
- Royalty financing should be evaluated annually. Market conditions evolve rapidly, and structures that were uneconomic two years ago may be attractive today.
- Hybrid structures represent the future. Royalties combined with equity and debt components optimize capital structure flexibility while managing dilution. Single-instrument financing is becoming the exception rather than the rule.
- Investor quality matters as much as pricing. Select an investor aligned with your stage and

strategic priorities over the highest offer alone. The relationship will span 5–10 years and will influence future financing options and strategic flexibility.

Your Next Steps

For companies considering royalty financing, the following actions will position you to move decisively when the timing is right.

- 1. Evaluate strategic fit.** Assess whether royalty financing aligns with your current stage, near-term capital needs, and long-term strategic priorities. Consider where you are in your product lifecycle and whether non-dilutive capital can accelerate your milestones without sacrificing equity upside.
- 2. Align your internal team.** Ensure your CFO, VP of Commercial, and General Counsel understand how royalty financing works and where it fits within your broader capital strategy. Internal alignment early on prevents delays later.
- 3. Model the capital structure.** Develop projections comparing equity-only, debt-only, and hybrid structures that incorporate a royalty component. Analyze the trade-offs across dilution, cost of capital, and covenant implications to understand how royalty financing complements your existing or planned financing.
- 4. Prepare your data room.** Assemble core documentation covering your financial projections, commercial landscape, and patent portfolio. A well-organized data room signals credibility and accelerates the diligence process significantly.
- 5. Engage BioPalace for a confidential review.** Share your data room with BioPalace, who will conduct an independent evaluation alongside external due diligence to assess your asset and identify a win-win structure between your company and the investor community. There is no cost or commitment at this stage.
- 6. Launch your campaign.** Once aligned on structure and terms, BioPalace will market your royalty opportunity to its curated network of institutional and accredited investors, managing the process end-to-end so your team stays focused on execution.

Closing Thought

Royalty financing represents a genuine evolution in biopharma capital markets. For companies with strong commercial assets requiring substantial capital, royalties offer an attractive alternative to equity dilution or risky venture debt. The investors are sophisticated, the deal structures are flexible, and the economics can be compelling.

For most biopharma companies at Phase III and commercial stages, royalty financing deserves serious consideration alongside equity and debt alternatives. The market has reached sufficient maturity, investor sophistication, and deal diversity that royalties now represent an established



capital solution rather than an alternative of last resort.

The future of biopharma funding is hybrid, sophisticated, and increasingly accessible to companies at scale. Make royalty financing part of your strategic toolkit.

BioPalace: biotech royalties made investable, accessible, and founder-aligned



Husein Hassan
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Learn more about [BioPalace](#) and
the investment team.

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