

Buyouts

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NEWS & ANALYSIS

Royalty finance comes of age

In a rebounding biotech market, royalty finance can play a far more strategic role, provided it's executed with disciplined underwriting, smart structuring and a genuine partnership with innovators, according to Ryan Murr, a partner at Gibson, Dunn & Crutcher

Biotech capital markets have started to find their footing again. The XBI is up roughly 22 percent year-to-date through October 2025 – a clear signal that investor confidence is back. Equity and follow-on windows have reopened, but interestingly, alternative (non-dilutive) financing hasn't slowed.

Royalty finance, once viewed as niche or defensive, has matured into a standing component of the biotech capital stack. Whether through traditional royalty monetizations, synthetic royalties or clinical funding facilities, companies are now using these tools to raise flexible capital without giving up control while investors are getting exposure to product-level cashflows rather than corporate volatility.

The appeal is straightforward: royalty finance optimizes risk and capital efficiency across market cycles. Even in this healthier equity environment, deal activity remains strong, with more than \$5 billion in announced transactions year-to-date, on pace to finish well above 2024 levels. But the real story is that these royalty financing transactions are not emergency, distressed or niche financings anymore. They're strategic.

From stopgap to strategic lever

For biotech and pharma management teams, royalty finance is becoming part of the planning toolkit, not a last resort. Monetizing a royalty on a marketed or



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near-commercial asset lets a company raise capital priced between equity and debt, cheaper than stock but lighter (and more flexible) than loans. Historically, these transactions spiked when valuations fell. Today, they appear even when the market is strong.

Unlike term loans, royalty facilities rarely come with onerous restrictive covenants or liens. That flexibility allows companies to fund late-stage trials, launch products or pursue acquisitions without the drag of amortization and operational restrictions typically found with loans. In a market where public and private capital are both available, that optionality matters.

Predictable yield, defined risk

For investors, royalties offer yield with a clearer line of sight. Cashflows depend on product sales and not quarterly earnings or market multiples. The risk is tangible: patent life, competition and regulatory risks. However, that universe of core risks is more bounded than equity risk.

Institutional investors increasingly view royalties as part of their real asset income strategies. Pension funds, sovereigns and private credit platforms are targeting returns in the 10-12 percent range. As the market deepens, liquidity has improved. Secondary resales and syndications, once rare, are now routine. The result: a more efficient, investable market.

Strategic currency

The composition of deals has changed more than the volume. The market has moved away from billion-dollar headline transactions toward a steady stream of mid-sized financings – typically in the range of \$50 million-\$300 million. Upfront payments now average nearly 80 percent of total consideration, reflecting stronger negotiating leverage for sellers as equity windows reopen and more funds compete for assets.

New entrants – private credit arms of buyout firms, yield-oriented infrastructure funds and crossover investors – have made the market more liquid and compressed returns. Royalty finance has become a true institutional asset class. The current trend isn't about distressed liquidity; it's about

Buyouts

optionality. Companies are using royalties to fine-tune capital structures, not to patch holes.

As equity markets normalize, the easy returns in royalty investing are fading. Pricing discipline, due diligence and sector insight are starting to separate top performers from tourists. For sellers, partner selection and structure now drive as much value as timing. The market is rewarding judgment over access. But there are some strategic takeaways that can't be ignored.

Discipline will define the next phase

With capital more plentiful, the differentiator isn't who can deploy money, it's who can underwrite intelligently. Investors need to dig deep into clinical, commercial and competitive risk. Transparent processes with real dialogue between investors and management teams will command better pricing and outcomes.

Quality and stage matter

Late-stage and commercial assets remain the sweet spot: near-term cashflows, diversified markets and durable IP. There's limited appetite for proof-of-concept or earlier-stage clinical risk, although the larger funds are showing an increased willingness to make selective bets on Phase 2 data. Sellers with registrational data or approved products can negotiate higher upfronts and lower caps, while earlier programs will need to trade price for access, absent a compelling market opportunity and data package.

Hybrid structures are becoming the norm

The boundary between royalty finance, structured credit and growth capital is blurring. Many recent transactions blend royalties with convertible tranches, milestones or even equity kickers. The goal is balance with liquidity today, upside tomorrow. Investors that can invest across the balance sheet (equity, debt and royalty) will frequently have an advantage in processes with sellers looking for flexible capital that leverages a multi-pronged approach to lower the overall cost of capital.

Treat royalties as strategic, not opportunistic

For management teams, a royalty monetization should be part of the broader financing roadmap, not an afterthought. Structure and timing matter. Strong equity markets give sellers leverage: they can align monetizations with data events, negotiate higher upfronts and select longer-term partners. But most facilities (particularly those that are uncapped) can't be refinanced later, so flexibility up front is key.

Expect lower returns, higher quality

As yields tighten, underwriting edge replaces access as the main advantage. Funds with therapeutic-area expertise and realistic commercial models will outperform. This is becoming more like private credit with fewer windfalls and rewarding underwriting skill. This dynamic also favors those buyers who have access to funds with a lower cost of capital. Those buyers who don't benefit from the scale or fund structure that provides a market-leading cost of capital will often need to focus on proprietary deals, hybrid

(often novel) structures, or underwriting insights that allow them to compete favorably in an increasingly competitive environment.

Innovation and liquidity ahead

The next chapter will feature more royalty-backed notes, listed vehicles and other creative structures that improve liquidity and valuation transparency, such as royalty-based tracking stocks. As portfolios expand, trading volumes are increasing, pulling in insurers and pensions hungry for long-duration assets. Participants in the space should look for creative deal teams to create novel structures that expand the asset class in new directions as increased liquidity and volume help to facilitate innovation.

Royalty finance is no longer a cyclical tool, it's a structural one. The market has matured into a permanent fixture of the biopharma funding ecosystem, balancing risk, liquidity and ownership.

The winners in this next phase won't just have capital; they'll have conviction and creativity. The edge lies in disciplined underwriting, smart structuring and genuine partnership with innovators. In a sector where science evolves fast and capital cycles turn quickly, that mix of creativity and underwriting judgment is what will make royalty finance enduring. ■

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