



EXECUTIVE INSIGHTS

Royalty Financing Comes of Age: Why This Once-Niche Source of Capital Is Gaining Momentum

Executive summary

Royalty interests are more widely held than many executives realize. Beyond major pharmaceutical companies, a broad range of organizations possess valuable, often underrecognized, royalty positions. Emerging biotechs may hold royalties from outlicensed products or codevelopment arrangements. Universities and research hospitals often retain the rights to discoveries licensed to commercial partners.

Foundations such as the Cystic Fibrosis Foundation have monetized royalty streams to reinvest in research and patient programs. In addition, aggregators like XOMA and DRI actively acquire and manage diversified portfolios of royalty assets.

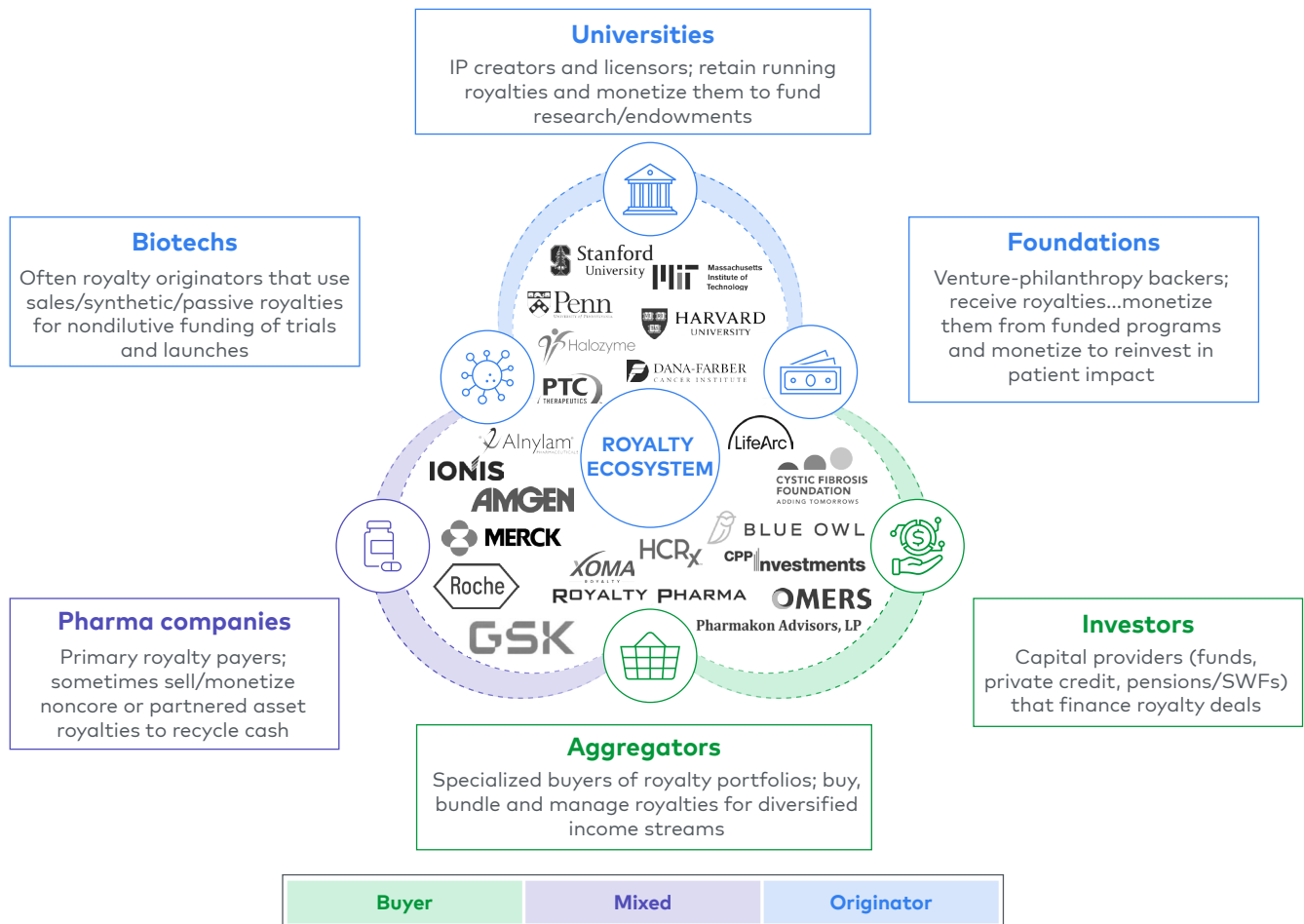
However, royalty-related financing remains an often misunderstood source of capital in the biopharmaceutical industry. Once viewed as an expensive last-resort option, nondilutive royalty funding has matured into a strategically flexible instrument that should be considered alongside more traditional equity and debt options.

As the market has matured, the range of royalty deal structures and execution pathways has expanded significantly. For management teams, understanding the pros and cons of royalty financing as well as how the varied range of royalty-focused structures best align with different strategic objectives has never been more important (see Figure 1).

L.E.K. Consulting has advised on nearly 100 royalty transactions over the past two decades. Our work has helped clients determine the fair value of their royalty assets, evaluate optimal structuring options and engage the right partners and processes to unlock value. In this edition of *Executive Insights*, we will share key learnings from our experience as well as considerations that should be top of mind for executives considering their capital formation options.

Figure 1

The royalty ecosystem



Note: IP=intellectual property; SWFs=sovereign wealth funds
Source: L.E.K. research and analysis

Why royalty financing is gaining momentum

Over the past 24 months, market dynamics have reshaped how biopharma companies think about their capital formation strategies. High interest rates, relatively closed-off equity markets and a more constrained credit environment have driven up the cost of traditional funding sources. At the same time, return expectations among royalty investors have remained relatively stable, typically in the high single to low double digits, narrowing the cost gap between royalty capital and conventional debt or equity.

In addition, while the supply of traditional capital has tightened, institutional investors such as pension funds, sovereign wealth funds and private credit platforms continue to allocate capital to royalties because these instruments offer steady uncorrelated cash flows that diversify their portfolios. For companies, royalty monetization continues to offer liquidity without dilution as well as freedom from the operational covenants associated with many forms of debt. As a result, what was once viewed as niche or expensive capital has become a more strategic component of the biopharma funding mix.

The growth of the royalty financing market underscores its evolution into a mature and competitive asset class. Global royalty deal value has risen from \$5.2 billion in 2020 to \$7.1 billion in 2025. Royalty financing has been relatively stable and rate-resilient.¹ Greater royalty-related deal volume has been driven not only by the specialized royalty funds that have long dominated the space, but also by new entrants such as private credit and infrastructure investors whose participation has deepened liquidity and spurred innovation in deal structuring.

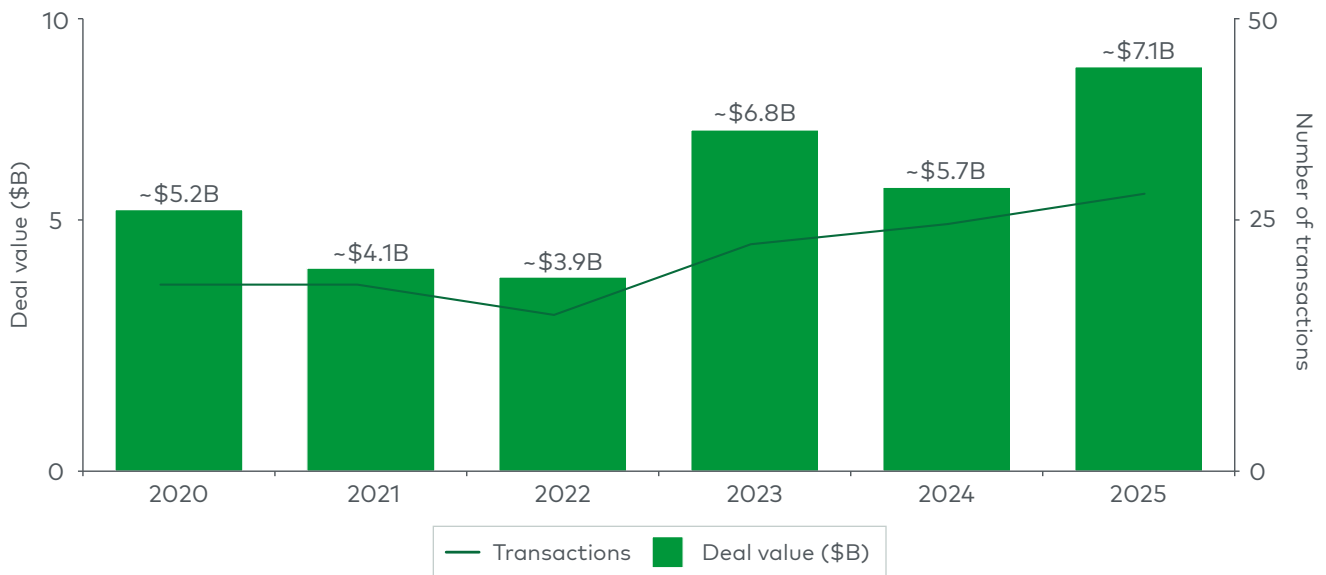
In addition to higher deal volume, the average royalty deal value has also risen. Some of this increase in average value can be attributed to multiasset portfolios, but it's also being driven by greater competition. Syndicated transactions, which are often the result of competitive processes, now account for approximately one-third of total royalty market activity.

Collectively, these shifts point to a maturing ecosystem characterized by larger transactions; faster, more-sophisticated processes; and greater competition, all of which favor well-prepared buyers and sellers (see Figure 2).

Figure 2

Total deal value reached \$7B by 2025, driven by deeper institutional participation

Royalty market growth



Source: Gibson Dunn, "Royalty Finance in Life Sciences: Market Update 2026"

The expanding range of deal structures

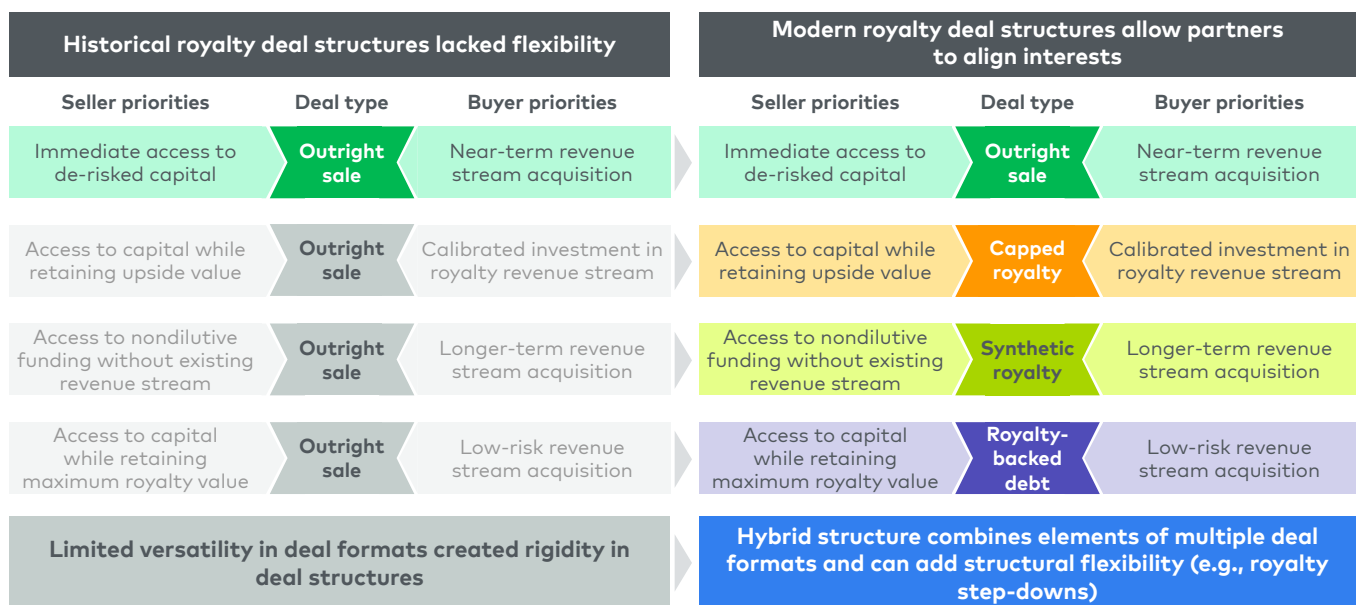
The modern royalty market offers a continuum of structures, each designed to balance risk transfer, upside potential and execution speed in different ways. In an outright sale, the seller transfers an existing royalty stream to the investor in exchange for a lump-sum payment, an approach best suited to mature in-market assets where simplicity and certainty are paramount. Capped royalty structures, in which investor returns cease once a predetermined multiple has been achieved, are particularly effective for assets with potential for life cycle expansion or additional label indications.

Synthetic royalties allow manufacturers to create royalty-like payment streams prior to FDA approval, enabling them to raise nondilutive capital for late-stage development or launch activities. Royalty-backed debt uses anticipated cash flows as collateral, providing flexibility for commercial-stage assets with predictable sales. Finally, hybrid structures combine elements of multiple formats, such as pairing a term loan with a capped royalty sale, which can broaden the number and type of investors that may be interested in participating.

The optimal structure depends on the product's risk-return profile, the company's financial objectives and the current market conditions (see Figure 3).

Figure 3

The spectrum of royalty financing structures



Note: Terminology may vary across reports and may not be mutually exclusive
 Source: Gibson Dunn; company websites

Our experience shows that tailoring structure can often be a way to bridge the divide between two parties' views of the risk-adjusted value of a particular royalty stream, balance the varying risk tolerance of different investors and increase the appeal of a deal to a broader set of investors (see Figure 4).

Figure 4
Royalty deal transaction examples

Structure	Outright sale	Capped royalty	Synthetic royalty	Royalty-backed debt	Hybrid structure
Example	Cystic Fibrosis Foundation/Vertex → Royalty Pharma (\$3.3B) (2014)	ADC Therapeutics → HealthCare Royalty Partners (\$325M, ~2.5x cap) (2021)	Revolution Medicines → Royalty Pharma (\$2B synthetic royalty + debt) (2025)	GENFIT → HealthCare Royalty Partners (€185M royalty-linked bonds) (2025)	BridgeBio Pharma → HealthCare Royalty Partners/ Blue Owl Capital (\$300M partial sale + cap) (2025)

Note: The Revolution deal may also be considered hybrid given the inclusion of debt.
Source: L.E.K. research and analysis

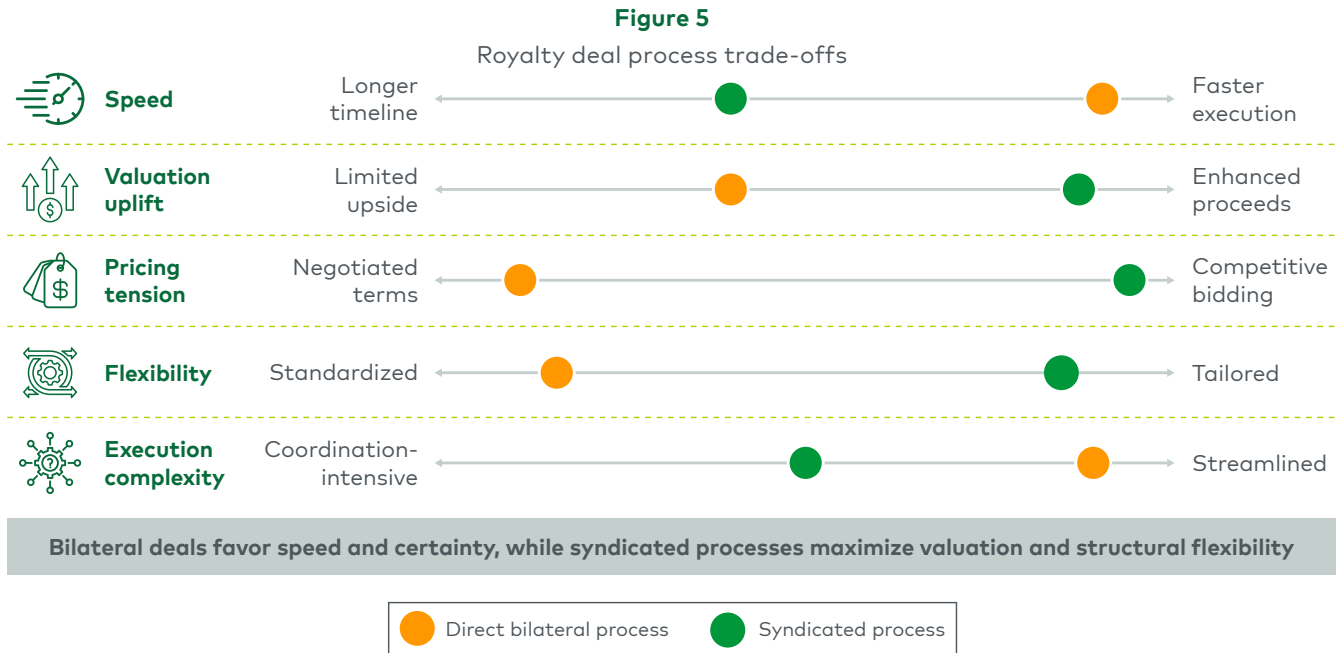
Aligning objectives and process design

While deal structure defines the economics of a royalty transaction for each party, the process used to execute it often determines its success. Companies can pursue either a direct bilateral transaction or a syndicated process. In a direct deal, the seller engages with a single established royalty fund, such as Royalty Pharma or HealthCare Royalty Partners. These transactions offer speed, confidentiality and the signaling benefit of partnering with a well-known counterparty, but they may limit pricing tension and structural creativity.

Syndicated processes, typically led by an advisor or investment bank, invite multiple royalty funds and private credit investors to participate. This competitive dynamic can lift valuations and allows for more-bespoke multitranche structures, albeit with longer timelines and greater coordination requirements.

In practice, the optimal path depends on a company's objectives. Organizations seeking speed and certainty may prefer a bilateral deal, whereas those focused on maximizing proceeds or flexibility can benefit from competitive tension. Regardless of approach, establishing a rigorous, data-driven valuation foundation is critical to ensure fairness and confidence in negotiations.

While either approach can be valuable under a different circumstance, L.E.K. has found that introducing even a modest amount of competition into a formal process can yield higher effective proceeds compared with direct deals (see Figure 5).



Source: L.E.K. research and analysis

What this means for biopharma leaders

For today's biopharma chief financial officers and business development executives, royalty financing is no longer a tactical fallback; it is a strategic capital formation lever that should be considered. Success begins with understanding the intrinsic value of one's asset before entering the market. Companies must choose a structure that reflects product risk, life cycle stage and funding need, and they should view process design itself as a negotiating lever. Even a light competitive check can materially shift terms.

Timing also matters: Monetizing when visibility is high enough to support strong valuation, rather than while under duress, allows companies to optimize both proceeds and flexibility. Finally, engaging advisors who combine deep therapeutic understanding with transaction experience ensures that deals balance investor interest with long-term corporate objectives.

The L.E.K. perspective

We bring more than two decades of experience advising across the full spectrum of royalty transactions, from traditional single-asset sales to complex, multi-investor portfolio financings. Our teams combine deep clinical and commercial expertise with real-time insight into investor preferences and deal structuring trends.

For any company holding or able to create a royalty interest, now is the time to reexamine its strategic value. For more information about how to understand, optimize and unlock that value, please feel free to **contact us**.

Endnote

¹Gibsondunn.com, "Royalty Finance in Life Sciences – Market Update 2026." <https://www.gibsondunn.com/royalty-finance-in-life-sciences-market-update-2026/>

About the Authors



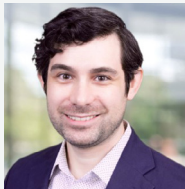
TJ Bilodeau

TJ Bilodeau is a Managing Director and Partner in L.E.K. Consulting's Boston office and is a member of the Life Sciences practice. TJ has more than 20 years of experience supporting clients across the biopharma industry with a focus on portfolio strategy, franchise leadership, and business development support. He has extensive experience across several therapeutic areas, including cardiovascular, renal and metabolic disease.



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About L.E.K. Consulting

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