



# Financing Life Sciences

## Third Annual Synthetic Royalty and Drug Development Financing Study 2019-2024

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## Overview

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The publication of this study marks the third consecutive year in which we have examined the prevailing trends in the public “synthetic royalty” and drug development financings markets. Over the course of the six-year period now encompassed by this report, companies have continued to turn to these financing structures to meet the ever-increasing costs for research and development of new drugs, and financing providers have continued to refine the terms on offer.

With an anticipated rebound in equity markets having failed to materialize in 2024, more and larger public companies decided to turn to these structures, as demonstrated by a modest uptick in deals and a more significant increase in deal size, led by a \$500 million financing early in the year.

In our review, we have seen the market coalesce around a minimum level of bankruptcy protection in the form of security interests over intellectual property and other product assets, but other elements of these transactions remain very much open to customization. This is reflected in our new comparison of negative covenants and put and other repayment obligations across different investors.

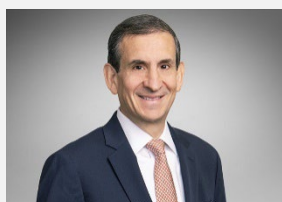
In the following pages, we present our updated study, which covers the period from January 1, 2019 to December 31, 2024, for transactions involving at least \$25 million entered into by public biotech companies.

Although commercially sensitive information was redacted from some publicly filed documents, sufficient information was available to provide a good sense of market terms.

## Contacts and Further Information

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If you would like to learn more details about our study and this growing market, please feel free to reach out to us.



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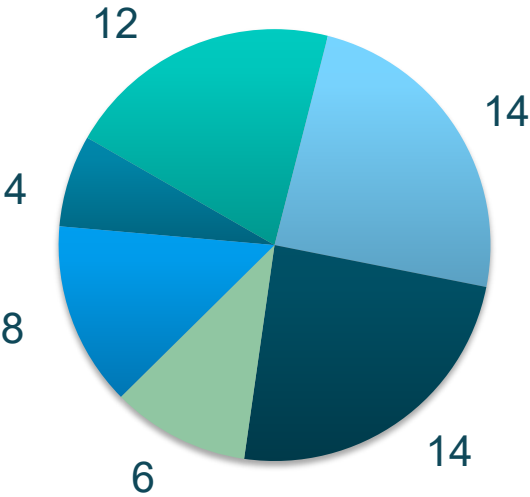
# Summary of Transactions Reviewed

58

Total Transactions

24

Unique Investors



■ 2019 ■ 2020 ■ 2021 ■ 2022 ■ 2023 ■ 2024

## Key Finding

While transaction volume was only slightly up in 2024 after decreased activity in 2023, we see continued interest in these financings from a growing universe of investors.

15

Investors with Two or More Transactions

9

Investors with Three or More Transactions  
(Increased by 1 since the last study)

7

Investors with Four or More Transactions  
(Increased by 1 since the last study)

4

Investors with Five or More Transactions  
(Increased by 1 since the last study)

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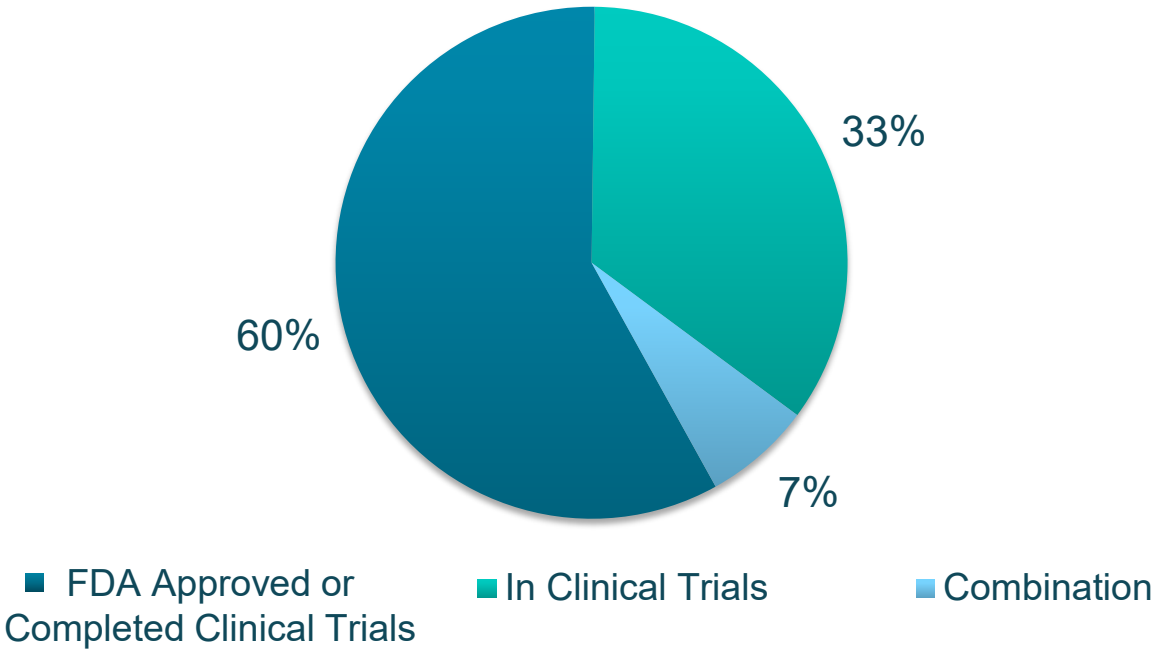
# Summary of Transactions Reviewed

**\$60,000,000**  
Median Up Front Payment

**\$125,000,000**  
Median Total Commitment

**\$25,000,000**  
Smallest Total Commitment

**\$500,000,000**  
Largest Total Commitment

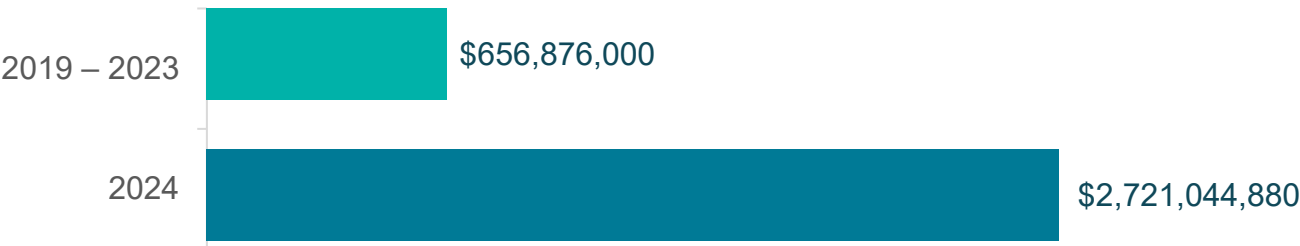


## Key Finding

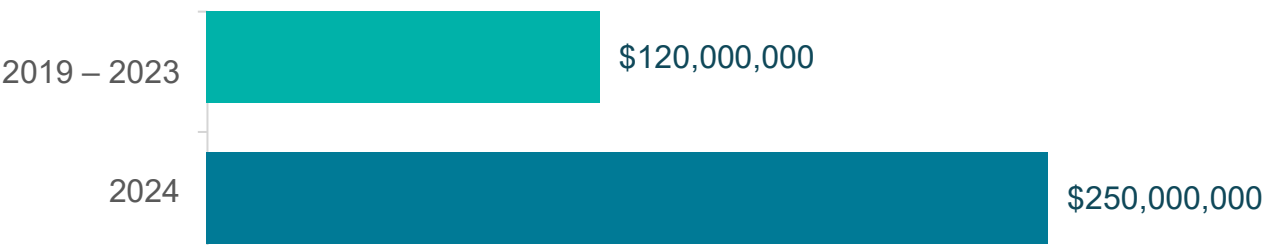
Transactions primarily involved drugs either in or starting pivotal trials or already approved by the FDA.

# Trends in 2024

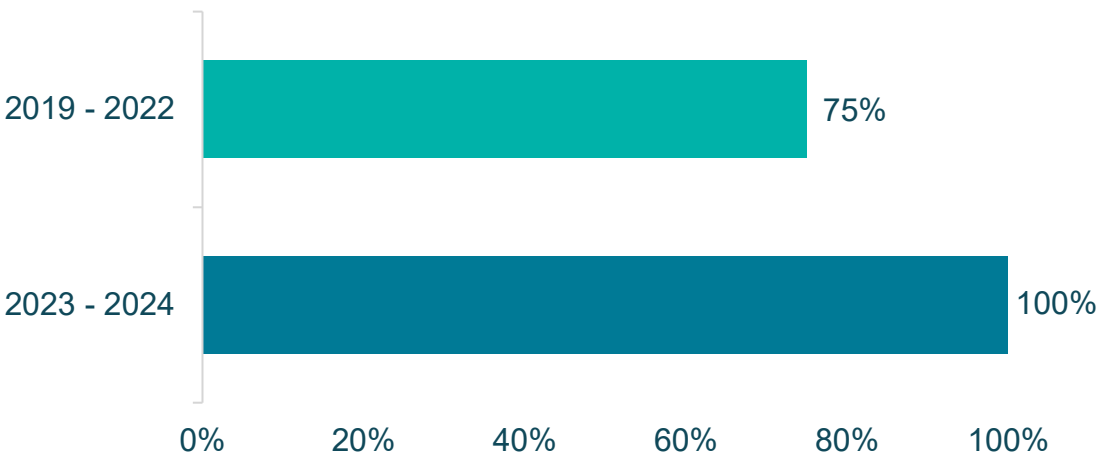
## Median Company Market Capitalization



## Median Deal Size



## Secured by at Least Product Assets

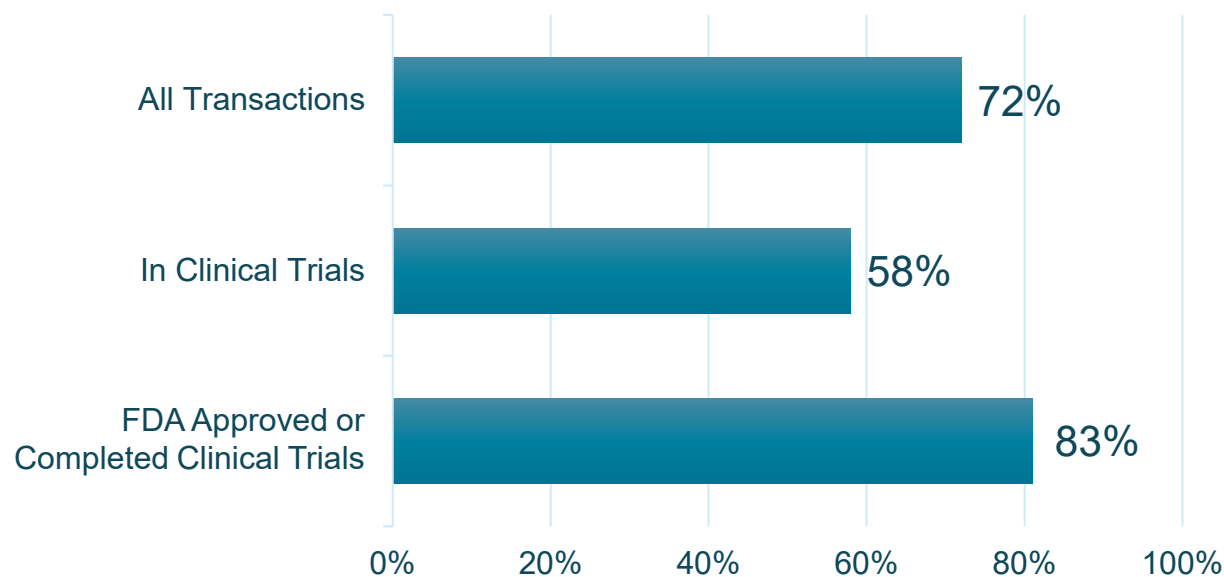


### Key Finding

The size of companies and transactions were larger in 2024, and the provision of at least some level of security remained a market standard.

# Maximum Return Multiple for Capped Transactions

Percent of Transactions Capped



**1.95 Times**  
**Median Return Cap Multiple**

**FDA Approved or  
Completed Clinical Trials**

**4.25 Times**  
**Median Return Cap Multiple**

**In Clinical Trials**

**1.55 Times**  
**Return Cap Multiple**

**Lowest Multiple**

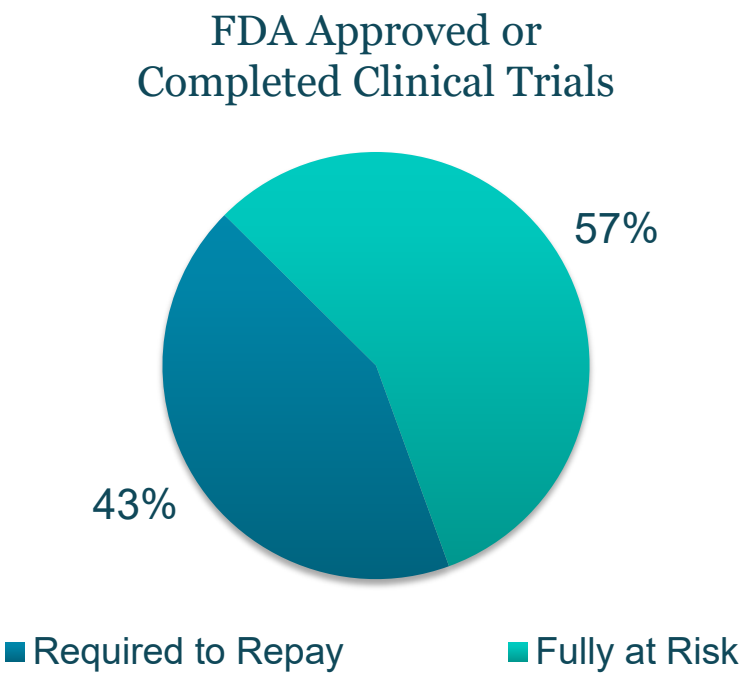
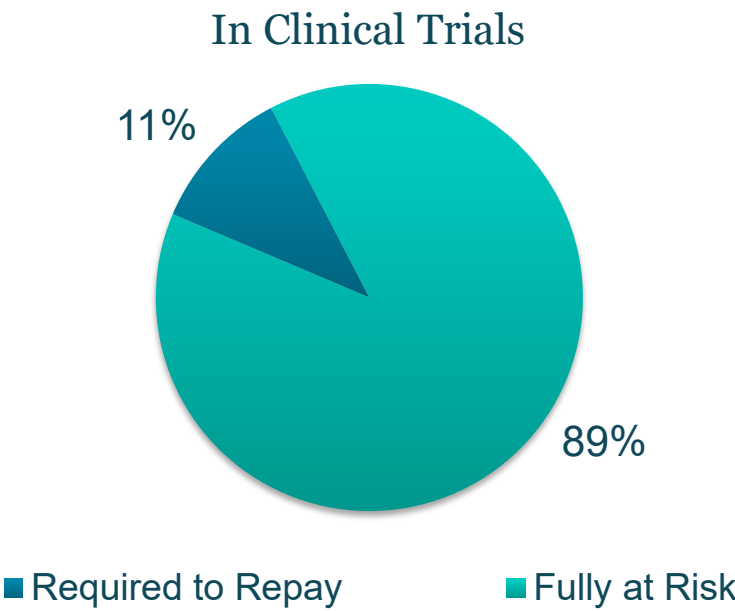
**11.14 Times**  
**Return Cap Multiple**

**Highest Multiple**

## Key Finding

A significant majority of the transactions capped the return available to the investor at a multiple of the invested amount. The size of this cap was generally inversely related to the stage of regulatory approval of the drug at issue, with debt-like investor returns for established products and equity-like investor returns for riskier products under development.

# Requirement to Repay Financing



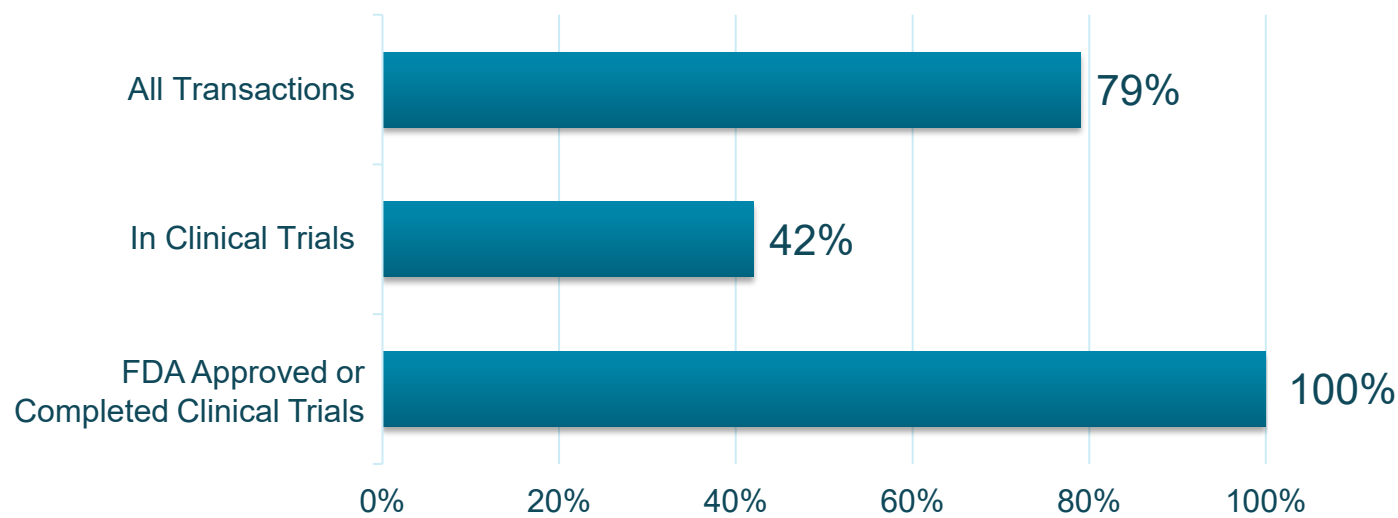
## Key Finding

Transactions involving drugs at an earlier stage of development generally did not have any absolute requirement to repay the funded amount, while those involving drugs near or with FDA approval were more closely split between transactions with and without that requirement.

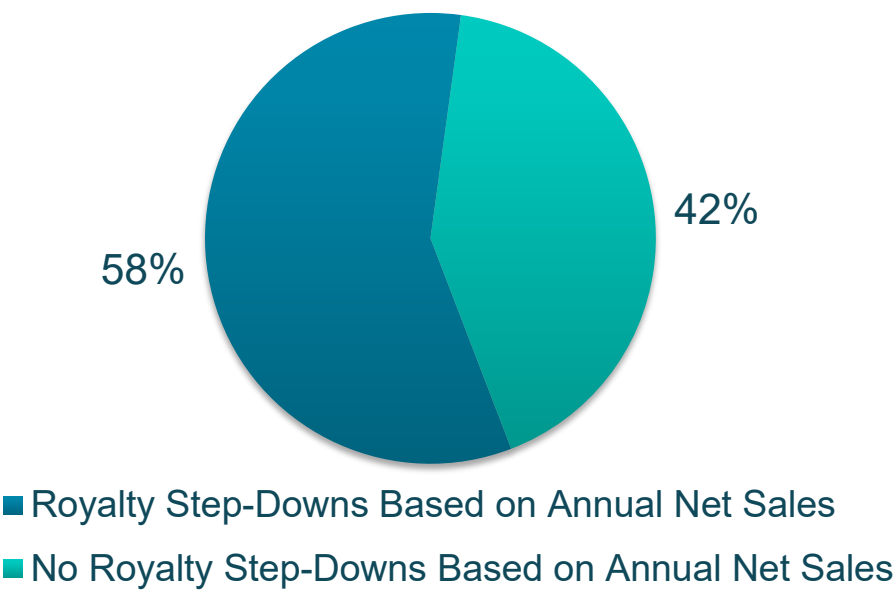


# Royalty Rate Economics

Percentage of Transactions with Solely Synthetic Royalty Compensation  
(No Milestone Success Payments)



Within Solely Synthetic Royalty Compensation Transactions

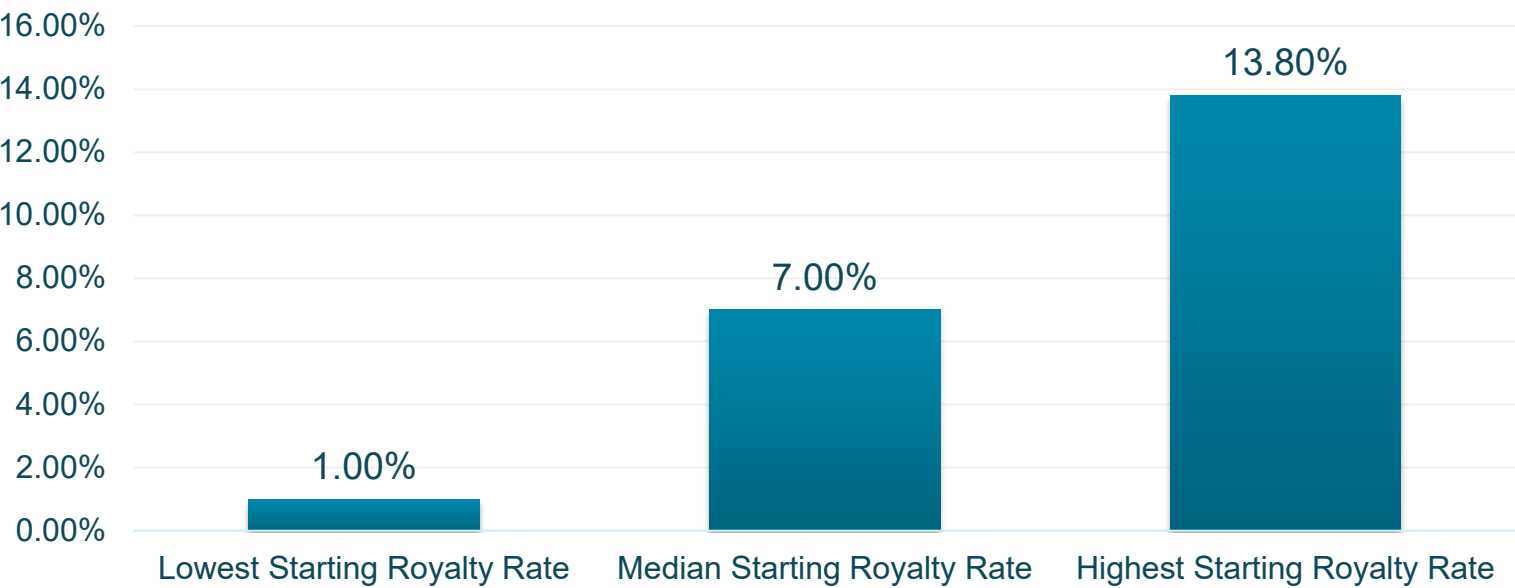


## Key Finding

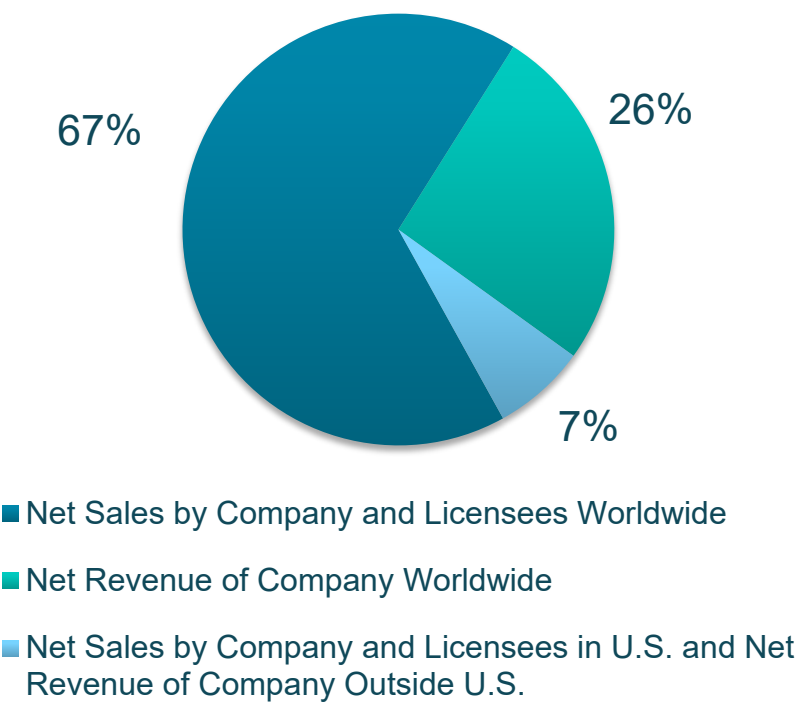
Royalty payment economics in the transactions demonstrated a broad range of structures, with a fully synthetic royalty structure the norm for products that are FDA approved or have completed clinical trials.

# Royalty Rate Economics

Within Solely Synthetic Royalty Compensation Transactions



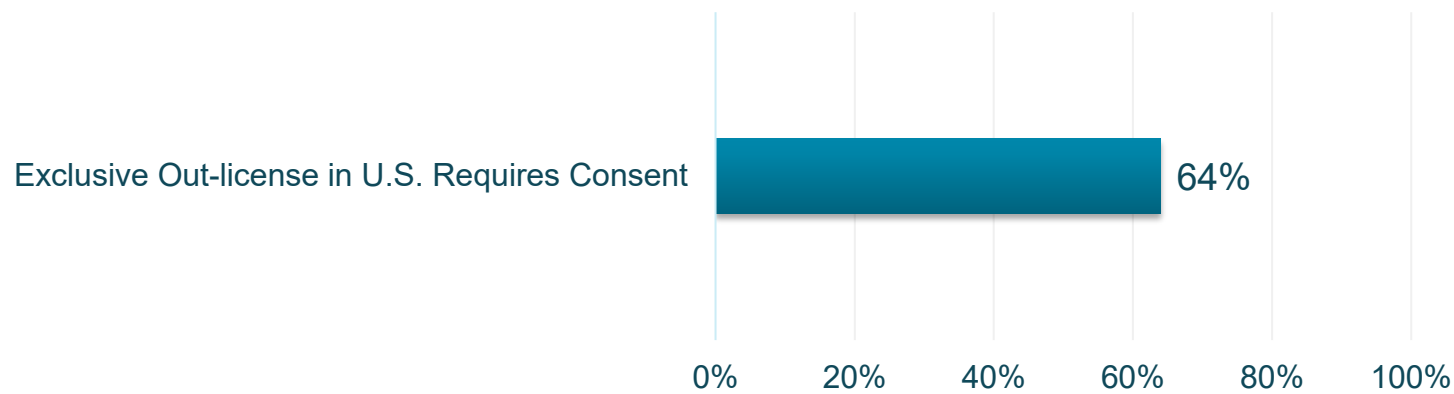
Synthetic Royalties Calculated Based On



## Key Finding

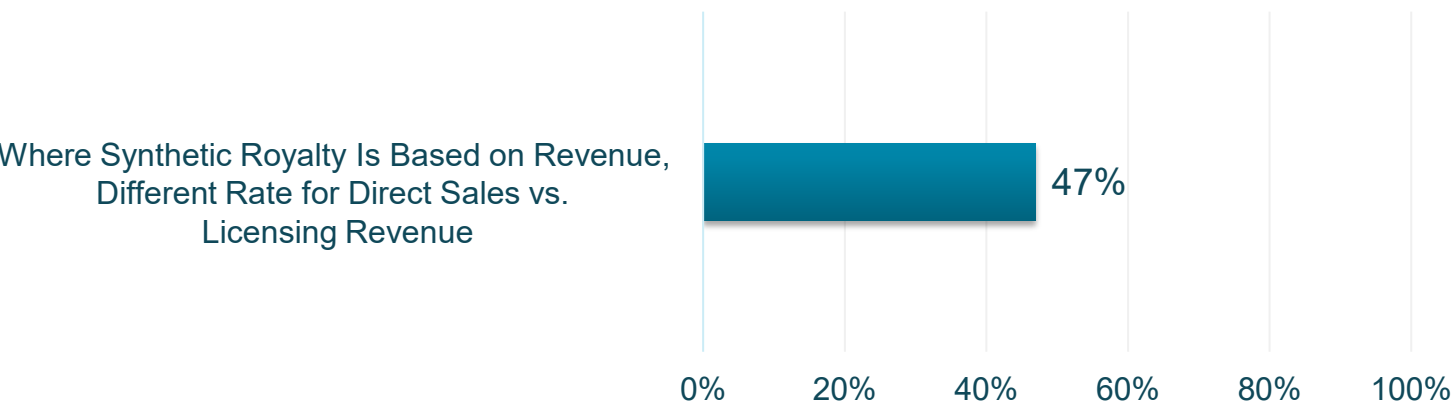
Although a majority of the transactions calculated the synthetic royalty based on net sales by the Company and its licensees, a number of transactions calculated the synthetic royalty solely based on revenue received by the Company, in particular with respect to sales outside of the U.S.

# Synthetic Royalty Rate Calculation



## Key Finding

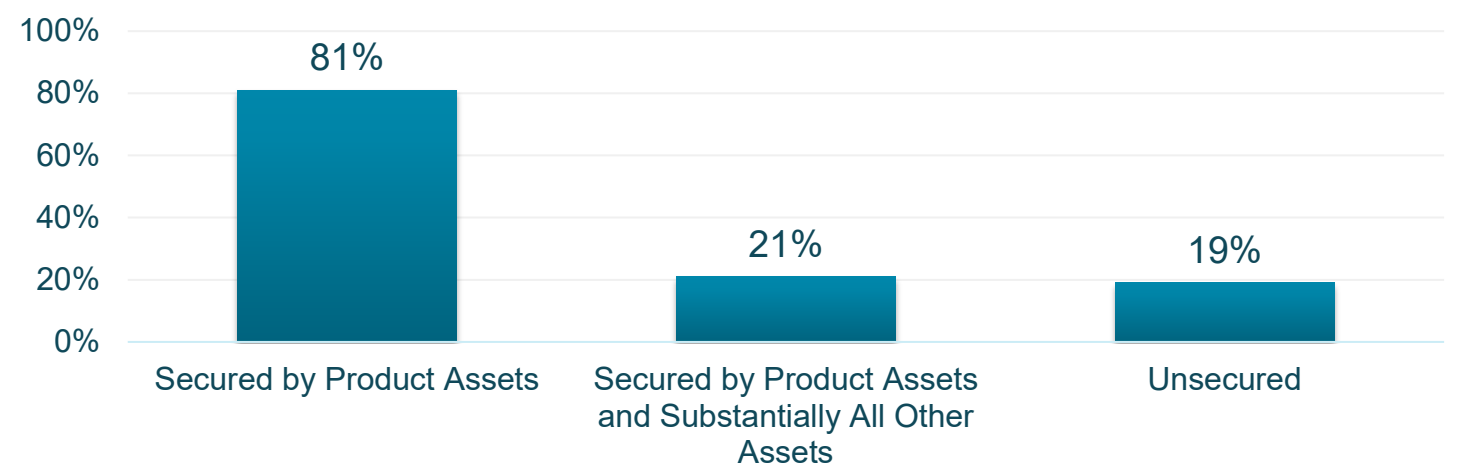
The majority of agreements prohibited exclusive U.S. out-licensing without investor consent.



## Key Finding

The synthetic royalty rate did not differ in approximately half of the transactions for direct net sales revenue vs. licensing revenue (licensing revenue typically being lower than direct sales revenue). The differing treatment may be due to whether the parties desired differential synthetic royalty rates for sales and licensing revenues or preferred a blended royalty rate.

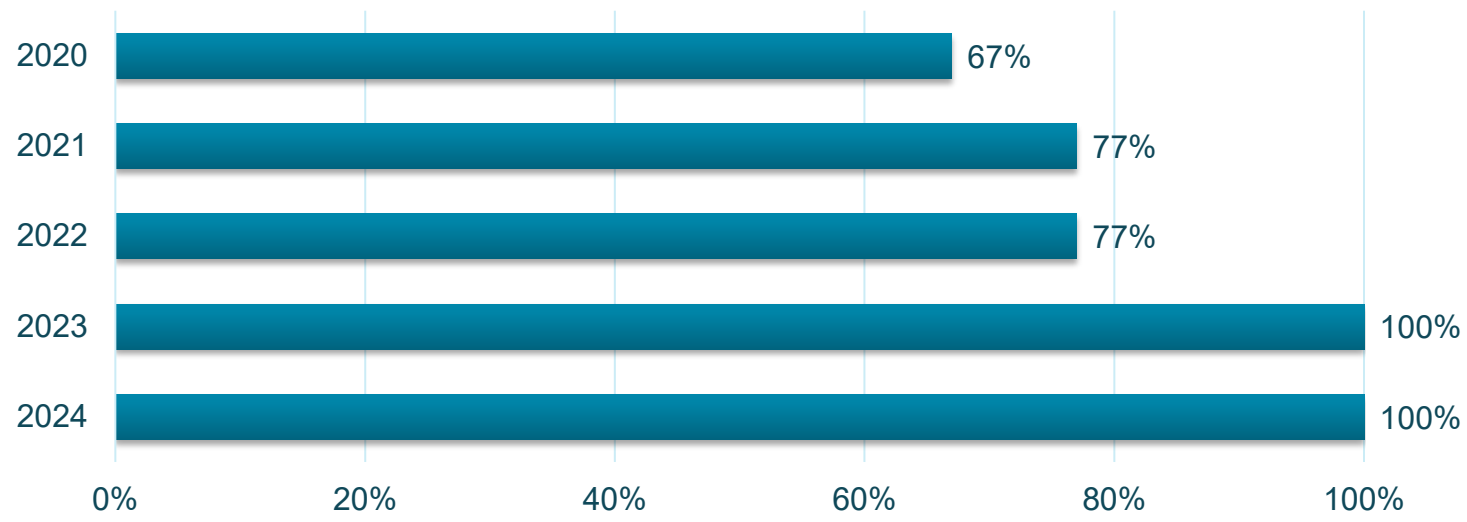
# Collateral



## Key Finding

These transactions are normally secured by product assets (such as intellectual property, contract rights, and related assets), and in some cases by all assets.

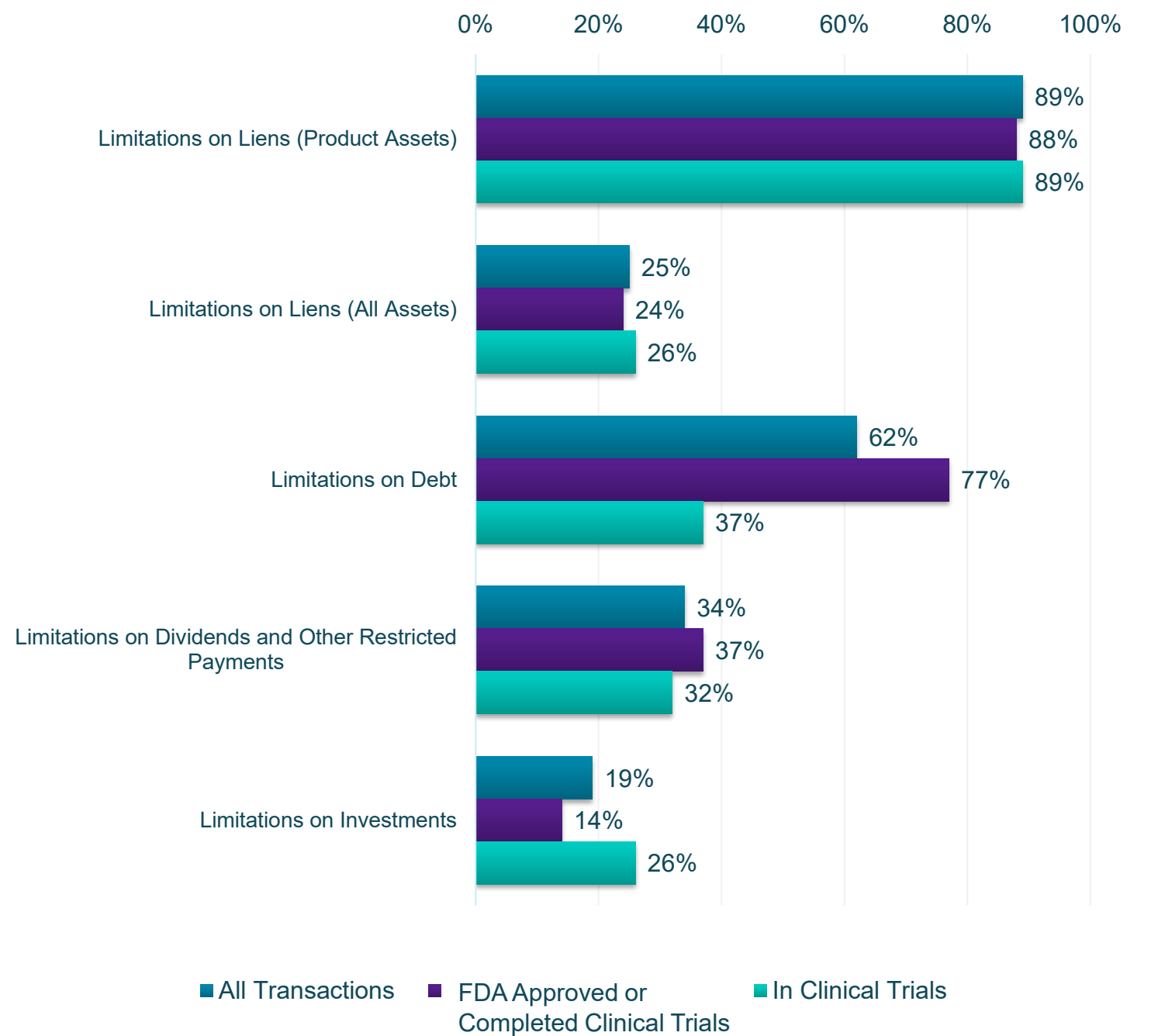
## Secured By at Least Product Assets



## Key Finding

There is a clear trend toward these transactions being secured by intellectual property and other product assets.

# Negative Covenants

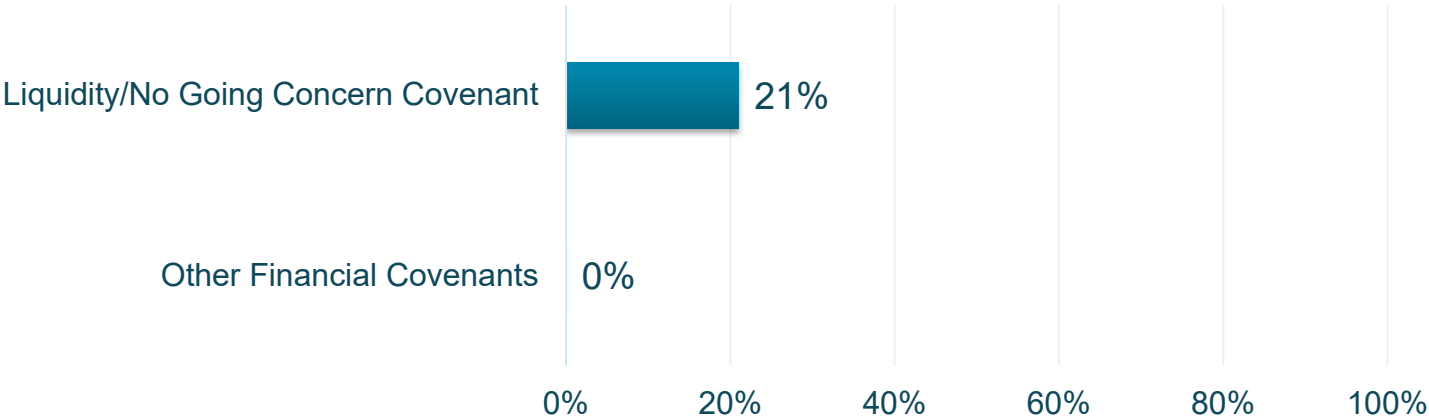


## Key Finding

Covenants were generally less restrictive for these transactions as compared to debt transactions.

# Negative Covenants

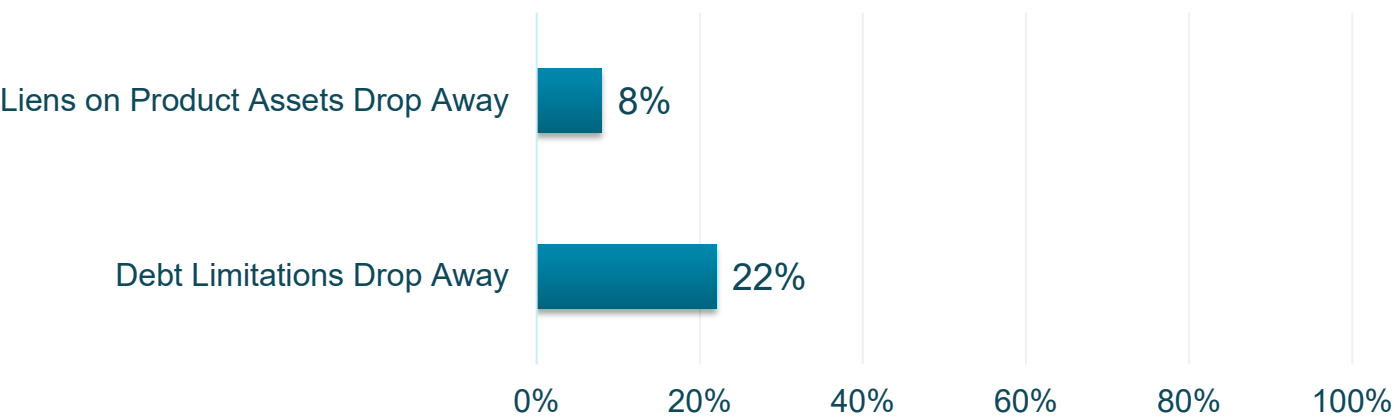
## Financial Covenants



### Key Finding

Financial covenants were rare in these transactions, and when included were limited to liquidity or related concepts.

## Investor Protections Drop Away on Specified Investor Returns



### Key Finding

Some agreements had certain investor protections fall away upon the achievement of specified returns.

# Synthetic Royalty Financing Covenants (Approved Products or Completed Phase III)

## Selected Terms – By Investor (2 or More \$100M+ Transactions)

Debt-like covenants in synthetic royalty deals vary from investor to investor. The chart below shows, by investor, how often debt-like covenants are included.

	Overall	Investor 1	Investor 2	Investor 3	Investor 4	Investor 5	Investor 6	Investor 7
Required to Repay	50%	All	Most	All	Some	Some	None	None
Put Right for Change of Control	85%	All	All	All	All	All	All	Some
Put Right for MAE	18%	All	Some	None	None	None	None	None
Put Right for Covenant Breach	58%	All	Most	All	All	Some	Some	None
Put Right for Rep Breach	41%	All	Some	Some	Some	Some	Some	None
Put Right for Other Debt Default or Acceleration	47%	All	Most	All	None	Some	Some	None
Limitations on Debt	80%	All	All	Some	All	All	Some	Some
No Other Debt Allowed With Lien on Product IP	40%	All	Most	Some	None	None	Some	None
Limitations on Investments	15%	All	None	None	None	Some	None	None
Limitations on Dividends	45%	Some	Most	Some	None	All	Some	None

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# Drug Development Financing Covenants (In Clinical Trials)

## Selected Terms – By Investor (2 or More \$100M+ Transactions)

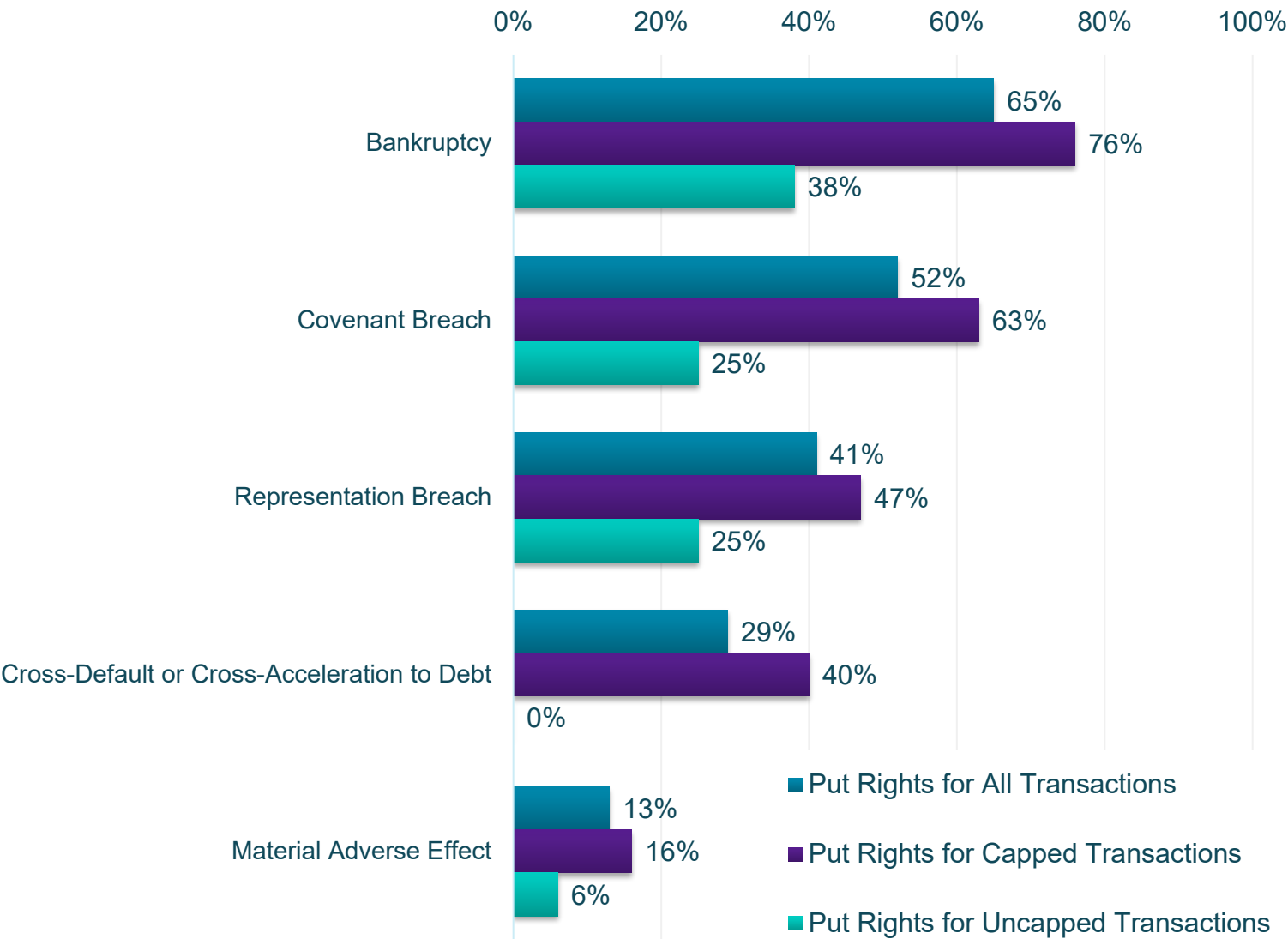
Debt-like covenants in drug development financings vary from investor to investor. The chart below shows, by investor, how often debt-like covenants are included.

	Overall	Investor 1	Investor 2	Investor 3	Investor 4
Required to Repay	0%	None	None	None	None
Put Right for Change of Control	67%	All	All	Some	Some
Put Right for MAE	8%	None	None	Some	None
Put Right for Covenant Breach	42%	All	Some	Most	None
Put Right for Rep Breach	42%	All	Some	Most	None
Put Right for Other Debt Default or Acceleration	0%	None	None	None	None
Limitations on Debt	50%	All	Most	Some	Some
No Other Debt Allowed With Lien on Product IP	33%	All	Some	Some	None
Limitations on Investments	33%	All	Most	None	None
Limitations on Dividends	33%	All	Most	Some	None

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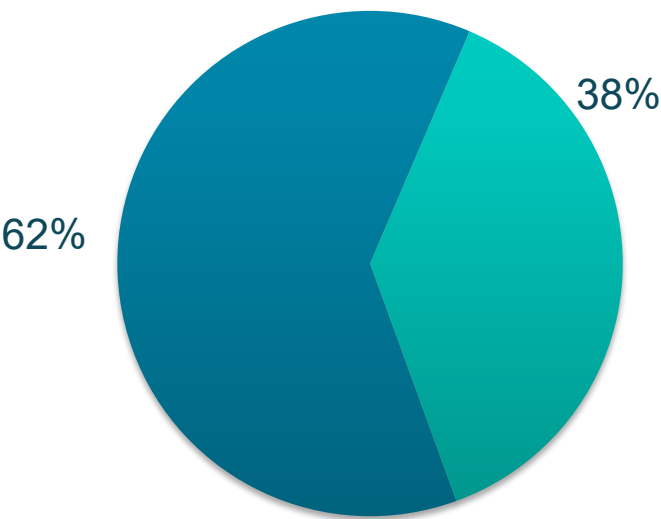
# Investor Put Rights



## Key Finding

Put rights give the investor a return of their capital plus an agreed multiple upon certain events, which are comparable to events of default in debt transactions. Absent a put right, the typical remedy for the investor would be an indemnity or breach of contract claim for damages. Transactions vary widely on their inclusion and details of put rights.

# Intercreditor Issues



- Permits material debt secured by product IP and other assets
- Does not permit material debt secured by product IP and other assets

## Key Finding

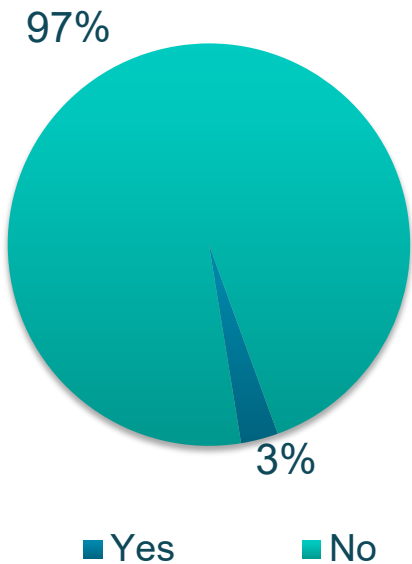
A majority of the transactions permitted material debt to be secured by product assets. In such cases, there is usually an intercreditor agreement put into place that spells out how the transaction will co-exist with this other debt, including in a bankruptcy.

In the event that bankruptcy courts do not preserve the investor's entitlement to payments following a bankruptcy, intercreditor agreements often provide in the alternative that proceeds from a sale, restructuring or bankruptcy be allocated among the investors and secured lenders according to an agreed waterfall.

# Special Purpose Vehicle Structure Required

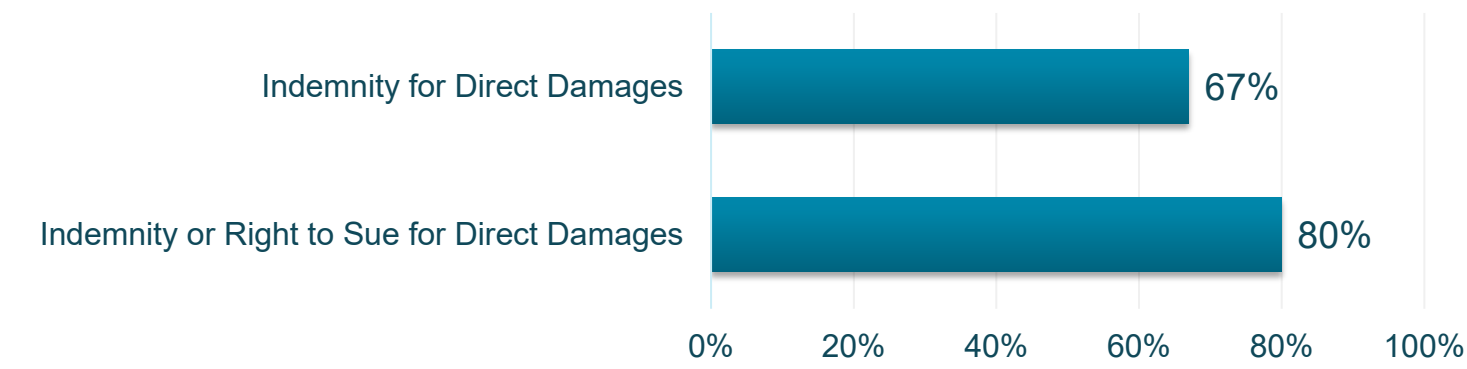
## Key Finding

Most transactions did not require a special purpose vehicle structure to be put in place to hold the product assets, thus simplifying and streamlining execution.



# Indemnities

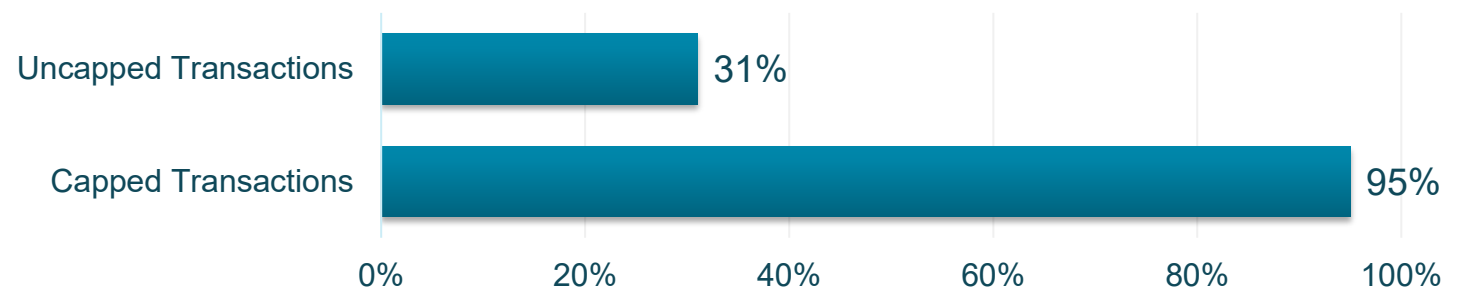
## Indemnity for Losses due to Covenant or Representation Breaches



### Key Finding

Companies generally agreed to indemnify investors from third party claims caused by breaches, but a majority also indemnified investors for all (not just those from third party claims) losses due to breach. An additional subset contemplated the possibility of suing for damages (even if there was no direct indemnity).

# Company Buy-Out Rights



### Key Finding

Given that capped transactions set a ceiling on returns, most of these transactions included the ability for the company to terminate the contract early by paying a specified amount. This flexibility is much less common for uncapped transactions, where the upside potential for the investor is greater and a buyout price more difficult to calculate.



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