



GIBSON DUNN

2nd BCLT Advanced Life
Sciences Institute:
Royalty Finance

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Royalty Finance | Overview

- **Royalty Interests** are rights to royalty payments owed by one party (a "**licensee**") to another party (a "**licensor**") for the license of licensor's IP rights to sell licensed products.

The term "**Royalty Finance**" broadly describes: a sale/financing of Royalty Interests. A non-dilutive transaction based on revenue derived from IP.

Depending on structure, may be more like:

- asset sale
- equity-like sale of fractional interest in future revenues
- debt-like transaction
- debt



Royalty Finance | Bowie Bonds

- David Bowie securitized his intellectual property rights
- In 1997, a Bowie SPV issued \$1,000-denominated bonds for \$55 million, which carried a 7.9% interest rate, maturing in 15 years.
- The bonds were backed by his assets, which had been transferred to an SPV:
 - Royalty Streams from:
 - a \$30 million, 15-year licensing deal with EMI
 - future album sales; and
 - live performances
 - Masters
 - Publishing Catalog

Types of Royalty Finance | Traditional Royalty

A sale by a licensor of rights to receive royalty payments for future sales of licensed products by the licensee (the “marketer”).

- **Uncapped sale**
 - Either sale of entire entitlement or a strip of the royalty interest until the end of the royalty term.
- **Capped Sale**
 - Royalty stream pays off buyer up to a set amount (cap).
 - Cap applies either per year or over entire stream and can vary depending on when it is met.
- **Cap-and-Tail**
 - After cap is hit, buyer and seller share the royalty until the end of the royalty term.



Types of Royalty Finance | Traditional Royalty



Types of Royalty Finance | Traditional Royalty



Licensor

Licensed Rights

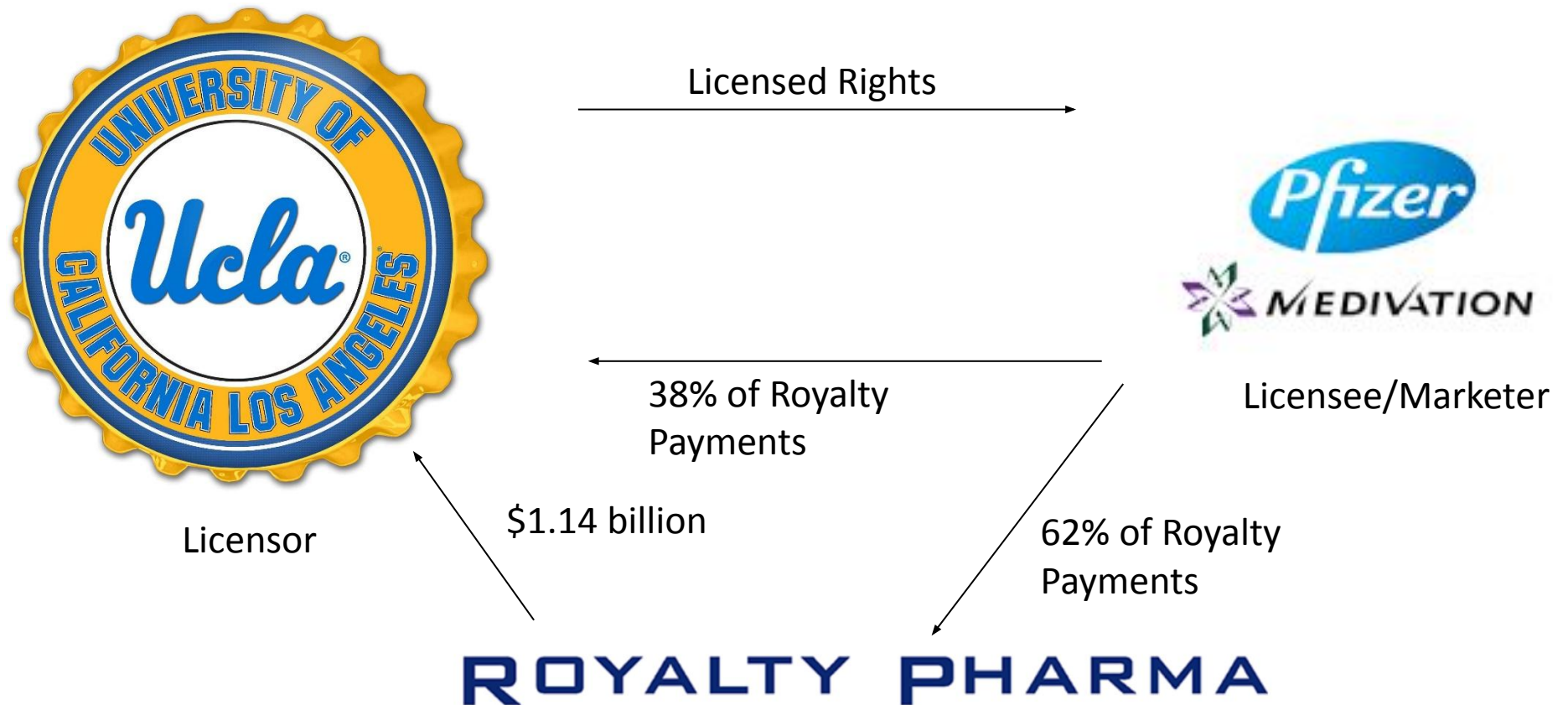


Licensee/Marketer

100% of Royalty
Payments



Types of Royalty Finance | Traditional Royalty








Types of Royalty Finance | Synthetic Royalty

Financing structure where **payment to the investor is funded by a portion of future product sales** by the borrower, who is also the marketer of the drug.

- Synthetic, as there are no current royalties owed under a license agreement
- Counterparty risk is greater in a synthetic royalty arrangement:
- Greater focus on downside protections
 - Minimum Catch-up Payments; Back-up Security Interest in Product Collateral
- Upside can also be capped (more debt-like) or uncapped (more equity-like)

Types of Royalty Finance | Synthetic Royalty

Debt-like ← → Equity-like

Economic return	Capped return (e.g. 2.5x invested capital)	Uncapped return
Protections	Debt-like covenants (including non-incurrence covenants or event of default remedies) Risk of recharacterization as debt: backup security interest in product collateral	Lighter covenants and fewer protections
Economic terms	Catch-up payments (e.g., 1.0x invested capital by 5 years) Make-whole payment at maturity date	Simple payment of royalty Possible step-up in royalty rate based on return
Examples*	  	 

* Gibson Dunn synthetic royalty transactions. Arrangement is debt-like to more equity-like in structure and/or economics.

Types of Royalty Finance | Synthetic Royalty / Clinical Funding

- Third-party funding for pivotal trials
 - Development risk assumed by funding partner (not debt)
 - Funding specific program / asset
 - Return of capital on milestones. Hypothetical funding:
 - 1x funding amount on positive data
 - 0.5x funding amount on NDA / BLA approval
 - 0.3x funding amount tied to commercial milestone
- Third-party funding for early-stage trials
 - Funding platform or basket of assets
 - More equity-like returns. Hypothetical funding:
 - Royalties on sales
 - Revenue sharing on out-licensing or M&A
 - May involve setting up entity-level JV

The logo for Avillion, featuring the word "AVILLION" in a bold, blue, sans-serif font.The logo for Blackstone, featuring the word "Blackstone" in a white, serif font on a black rectangular background.The logo for BVF Partners L.P., featuring the letters "BVF" in a large, bold, serif font, with "PARTNERS L.P." in a smaller, all-caps, sans-serif font below it, separated by a thin horizontal line.

Synthetic Royalty | Example – Clinical Funding of Olanzapine



ROYALTY PHARMA

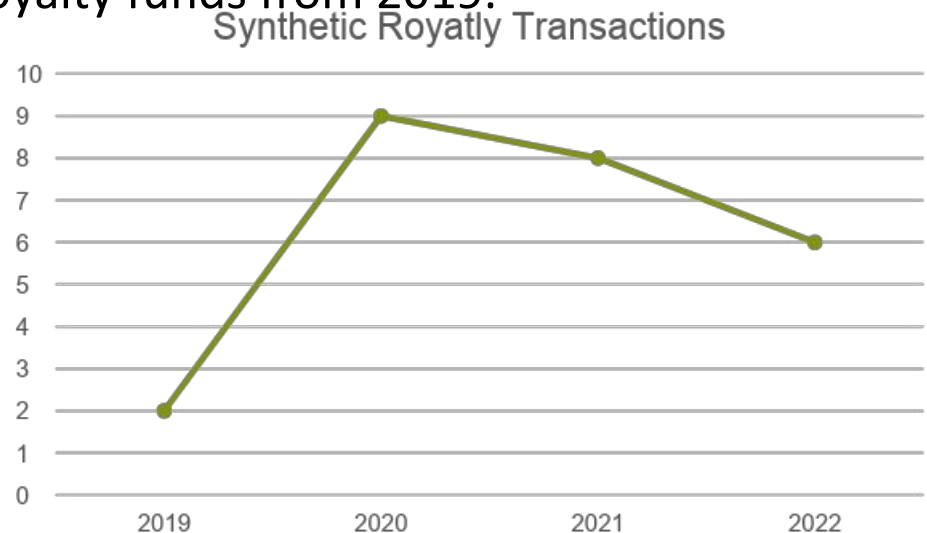
\$100 million purchase price to fund development costs, with mutual option to increase to \$125 million



- Upon FDA approval, Teva will pay Royalty Pharma:
 - the total amount funded over five years
 - Low to mid-single digit royalties upon commercialization
- If Teva chooses not to file a New Drug Application with the FDA following positive Phase 3 study results, Teva will pay Royalty Pharma 125% of the total amount funded.
- **Uncapped economics with no catch-up payments - “True Sale”**

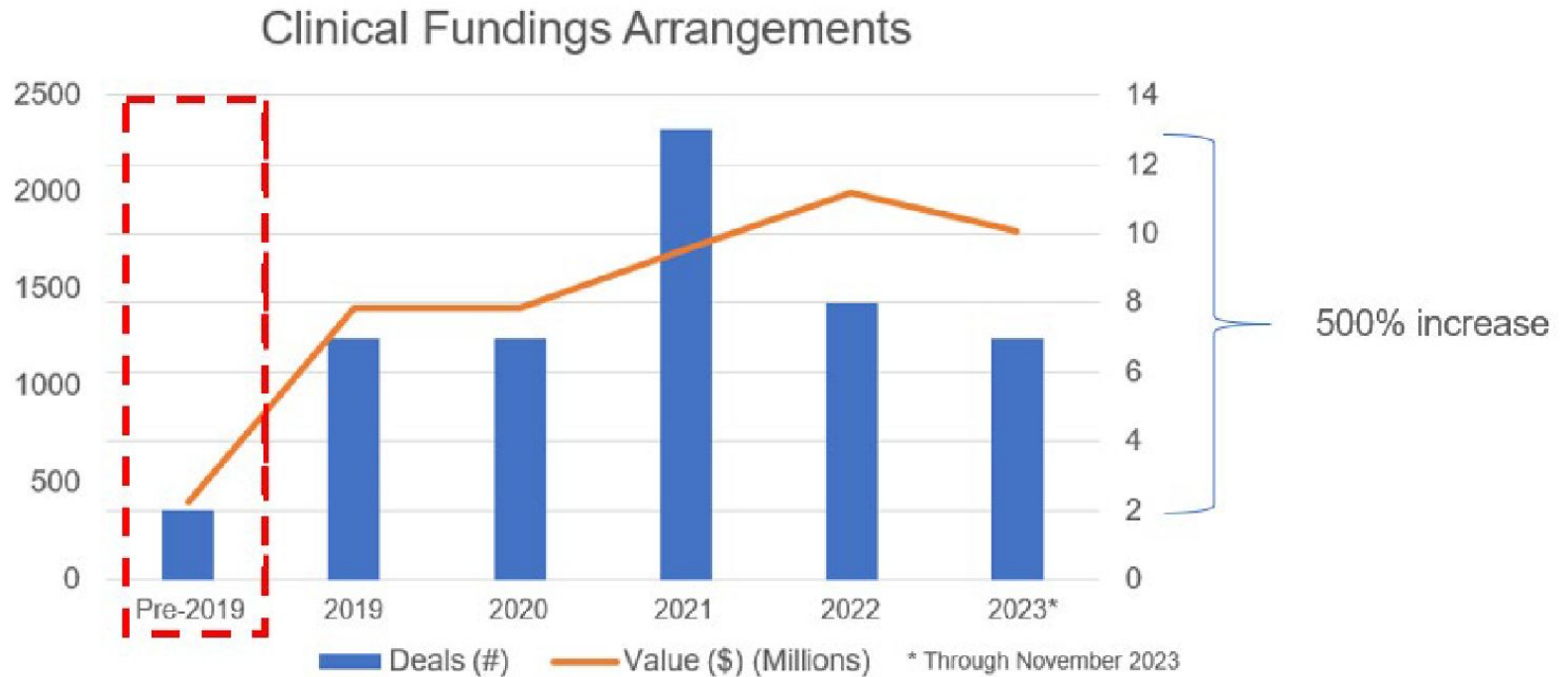
Royalty Finance | Recent Trends

- With the turbulent capital markets over the last several years, biotech valuations dropped and we saw an increase in demand for non-dilutive financing alternatives.
- Starting in 2020: There was an increase in both the number of transactions and overall deal size completed by the top royalty funds from 2019.
- No. of Transactions:
 - synthetic royalty transactions: 350%
 - royalty finance transactions (traditional and synthetic): 25%
- Deal Size
 - synthetic royalty transactions: 450%
 - royalty financing transactions (traditional and synthetic): 30%



Royalty Finance | Recent Trends

- Since 2019, there has been nearly a 5-fold increase in total funding commitments for clinical funding transactions.



Royalty Finance | Recent Trends

- Other Stats*
 - Average upfront: \$140 million
 - 60% did not have a cap
 - 25% had liens on product-related assets

* Data was compiled from a Gibson Dunn survey of royalty financings from 2019-2023 by Royalty Pharma, DRI Capital, Healthcare Royalty Partners, OMERS, Oberland Capital, CPPIB, and Blackstone. Also, a special thanks to Cowen for contributing data regarding royalty financing arrangements.

Royalty Finance | Outlook

- The factors driving royalty financings over the last several years are expected to continue through 2024.
 - Continued volatility of the capital markets
 - High interest rates
 - Pharmaceutical companies' focus on raising non-dilutive capital, and
 - Investors desire for stable investments divorced from the capital markets.