LIFE SCIENCES
2026 OUTLOOK

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Contents

1 Introduction

2 Mergers & Acquisitions

3 Capital Markets

4 Royalty Finance

5 Collaborations and Licensing

6 Regulatory Environment

7 Conclusion

8 Our Team

Introduction

2026 Life Sciences Industry Outlook

The life sciences industry enters 2026 with a constructive set of tailwinds, following a second half of 2025 in which dealmaking activity showed clearer signs of normalization after a prolonged slowdown. While risks remain, particularly around geopolitics, trade policy, and regulatory priorities, the overall setup for 2026 is cautiously constructive, with improved visibility into execution pathways for well-positioned assets and platforms.

Key developments during 2025 that set the stage for the year ahead include:

- a sharp acceleration in M&A activity, including the return of mega-cap and upper-mid-market transactions alongside a steady cadence of bolt-on acquisitions, driven by pipeline pressures, improving financing conditions, and clearer regulatory expectations;
- a bifurcated but improving equity capital markets environment, with a volatile first half giving way to a disciplined reopening in the second half of 2025, characterized by catalyst-driven follow-on financings and early signs of IPO market recovery;
- continued expansion of non-dilutive and alternative financing solutions, particularly royalty and synthetic royalty transactions, which are increasingly being used not only by capital-constrained companies, but also by large, well-capitalized biopharma companies as tools for portfolio de-risking and capital optimization; and
- resilient and increasingly sophisticated licensing and collaboration activity, supported by sustained demand for external innovation.

At the same time, companies and investors must navigate an active and evolving regulatory environment. Against this backdrop, this report provides an integrated outlook on life sciences deal activity in 2025 and an outlook on 2026 across mergers and acquisitions, capital markets, royalty finance, collaborations and licensing, and regulatory developments, highlighting the trends, opportunities, and uncertainties most likely to define the year ahead.

Mergers and Acquisitions

M&A activity in 2025 accelerated sharply, marking one of the busiest years on record. Aggregate deal value and the number of announced transactions rose meaningfully from 2024, buoyed by marginally improving financing conditions, greater boardroom confidence, and clearer regulatory expectations in the second half of the year. Mega-cap and upper-mid-market deals returned alongside a still-healthy cadence of bolt-on acquisitions and other smaller transactions by companies focused on incremental pipeline enhancements and portfolio gaps. Therapeutically, 2025 activity remained anchored beyond traditional oncology into cardio-metabolic (including obesity-adjacent assets) and neuroscience/CNS, while radiopharmaceuticals continued to command strategic interest and autoimmune/immunology remained a steady source of durable, de-risked, later-stage pipeline reinforcements.

Regulatory review stayed active, but clearer expectations and tighter deal planning improved execution for high-quality, strategically aligned transactions. As we continue into 2026, a more predictable regulatory environment and potentially declining interest rates may lay the groundwork for a further uptick in M&A activity.

Key drivers that will dictate the pace of M&A activity in 2026 include potentially lower borrowing costs, mounting pipeline pressures from an approaching “patent cliff” for large pharma, and expectations of a return to more traditional regulatory norms at the federal level, which together may enable additional large, transformative deals. Therapeutic areas such as oncology, radiopharmaceuticals, and cardio-metabolic conditions—bolstered by the continued success of GLP-1 drugs—are likely to remain at the forefront. The GLP-1 impact is also expected to extend beyond traditional therapeutics, influencing adjacent markets such as medical devices and surgical procedures by potentially reducing demand for bariatric surgeries and other obesity-related interventions, as well as treatments for conditions linked to metabolic dysfunction (e.g., insulin resistance) that accompany obesity. While the setup has promise, execution risks remain, and the cadence of mega-deals will still depend on regulatory stability, constructive credit markets, and the availability of de-risked, high-quality assets.

Notable 2025 deals included Merck’s $9.2 billion acquisition of Cidara Therapeutics and Roche’s up to $3.5 billion acquisition of 89bio, each of which underscored an appetite for strategic growth. In addition, private equity’s role in M&A continued to expand, targeting scalable platforms like CROs and specialty biotechs. The trend of bolt-on acquisitions is expected to continue into 2026, with companies leveraging smaller, strategic transactions, particularly in the private company space, to bolster their pipelines and expand technological capabilities. Larger deals, aimed at addressing high-value areas like neurology, advanced diagnostics, and rare diseases, may also feature prominently. Additionally, companies are increasingly pursuing select acquisitions and partnerships to internalize platform capabilities in cell therapy and gene editing, particularly where in vivo delivery and manufacturing know-how can be leveraged across multiple programs.

CVRs continue to be used in life sciences M&A as a practical way to bridge valuation gaps where buyers discount assets for clinical, regulatory, or commercialization uncertainty while sellers want credit for future upside. Market data shows the CVR tool has stayed prevalent and, in some segments, increased. Deal tracking data found that a majority of biotech deals in 2025 included CVRs, reflecting increased use of this tool as a means to bridge valuation gaps in a volatile market.

Reverse merger activity remained robust in 2025, with investors of failed companies seeking a path to recycle cash and a glut of private companies aiming to reach the public markets against the backdrop of a warming capital market environment. These trends are expected to continue as concurrent PIPEs allow private companies to lock in a valuation earlier than the traditional IPO process and make reverse merger a viable IPO alternative, such as the Q4 2025 reverse mergers and concurrent PIPEs for Damora Therapeutics ($285 million PIPE) and Yarrow Bioscience ($200 million concurrent financings).

Another notable trend for 2025 is a continuing wave of liquidation-as-a-service (LaaS) deals for struggling public biotechs with negative enterprise values. LaaS transactions typically involve a tender offer with a back-end merger structure, distributing to the stockholders (i) net cash at closing (less a modest fee and accruals for wind-down/legacy liabilities) and (ii) CVRs representing the right to receive net proceeds from potential platform/legacy assets sale and out-licenses. LaaS transactions offer pragmatic, transparent alternative to formal liquidations with a more rapid return of cash and reflect 2025 life sciences themes of capital discipline and faster capital redeployment to higher-value programs.

Risks to the 2026 M&A environment include geopolitical disruptions, overheated valuations, inflation (and the impact on interest rates), pharmaceutical tariffs, and uncertainty surrounding regulatory priorities, particularly around drug pricing and access. Nonetheless, a reasonably favorable macroeconomic environment, a more favorable regulatory environment, ongoing innovation, and the ever-looming “patent cliffs” for large pharma are expected to drive a more robust M&A environment in 2026.

Capital Markets

The life sciences equity capital markets in 2025 were defined by a stark "tale of two halves," beginning with intense volatility that effectively shuttered deal activity. The first half of the year was marred by significant market uncertainty, particularly following the "Liberation Day" tariff announcements. This event, combined with regulatory upheaval caused major indices like the XBI and Nasdaq to slide. During this period, the capital markets lay dormant—April saw zero priced biotech IPOs and only four priced follow-on deals, three of which were registered directs.

However, the second half of 2025 witnessed a powerful rebound as markets stabilized around greater regulatory certainty and interest rate cuts supported increased investment in the sector. Data provided by Jefferies indicate that activity accelerated significantly from June through December, with 112 follow-on offerings completed in the second half compared to just 45 in the first half. The IPO market also slowly began to emerge; after a dormant second quarter, three biotech IPOs priced across the second half of the year (resulting, however, in just seven IPOs total in 2025).

The recovery in the follow-on equity market was characterized by a shift in execution strategy and strong aftermarket performance. As investor optimism reached yearly highs, companies increasingly utilized public marketing for follow-on offerings rather than relying on confidential, wall-crossed structures. Between June and December, approximately 67% of follow-ons featured a public marketing component, up from roughly 47% in the first half of the year. Approximately two-thirds of follow-on offerings were catalyst-driven, rather than opportunistic, reflecting a market where investors were willing to support development programs with tangible clinical proof and de-risked paths to commercialization. This trend suggests that while the capital "thaw" is underway, the market remains highly disciplined, rewarding companies that successfully translate scientific innovation into measurable productivity. This has been supported in part by a larger reallocation of capital out of AI and technology and back into biopharma, which has suffered from an under allocation for the past several years.

The venture capital ecosystem stayed relatively steady in 2025, with biopharma companies raising $24.6 billion as compared to $27.8 billion in 2024. Venture investment favored companies with advanced therapeutic pipelines with near-term clinical and commercial potential. Further evidencing this trend is the widening gap between aggregate investments in Seed and Series A rounds versus Series B rounds and later, with $8.7 billion invested in early stage rounds in 2025, compared to $16.0 billion in later-stage rounds.

Looking ahead to 2026, there are continued reasons for optimism. With the VIX ending the year at lower levels and the XBI finishing up 35% for 2025, the foundation for a sustained bull market in life sciences appears solid. A large IPO backlog remains poised for a greater number of public company debuts, and the increasing commonality of non-concurrent, catalyst-driven deals for larger companies suggests a return to a more normalized and robust financing environment.

Special thanks to Jefferies for contributing data regarding 2025 biotech new issuances.

Royalty Finance

Once again, 2025 marked a year of meaningful growth for royalty finance, underscoring the continued evolution of royalty monetization transactions from niche alternatives into established components of the corporate finance toolkit within the life sciences sector. Aggregate transaction value across leading market participants increased to a record level of approximately $6.5 billion, up from approximately $5.7 billion in 2024. While $6.5 billion remains modest when compared with traditional equity or debt markets, the growth trajectory is notable. As recently as the early 2000s, annual aggregate royalty finance transaction value was estimated at less than $200 million per year, highlighting the extent to which royalty financing has relatively quickly become a mainstream funding solution for biopharmaceutical companies.

Participation from traditional private equity firms in the royalty finance ecosystem deepened further in 2025. KKR's acquisition of a majority stake in Healthcare Royalty Partners (HCRx) in mid-2025 reflects growing institutional conviction in the durability and scalability of royalty-based investment strategies. Meanwhile, Blackstone Life Sciences remained highly active in the space. In Q4 alone, Blackstone both completed a $310 million sale of its royalty interest in Alnylam's Amvuttra® to Royalty Pharma and entered into a $700 million synthetic royalty transaction tied to future net sales of sacituzumab tirumotecan (sac-TMT) via a development funding agreement with Merck.

Blackstone's synthetic funding agreement with Merck was notable for an additional reason: it highlighted the increasing willingness of large, well-capitalized pharmaceutical and biotech companies to use clinical funding arrangements as a portfolio de-risking and strategic capital optimization solution, rather than merely as a fundraising tool deployed in response to capital constraints. This theme was echoed across several other high-profile transactions in 2025. BridgeBio's $300 million sale of European royalties from Beyonttra™ to HCRx and Blue Owl Capital is helping to support and accelerate its self-commercialization efforts of Attruby™ in the United States. Similarly, BeOne Medicines' up to $950 million sale of a royalty interest in Amgen's Imdelltra® to Royalty Pharma enhances its flexibility to support broader business objectives.

Innovative deal structures continued in 2025, with multiple underlying assets, staged funding tranches, step-down or step-up royalty rates, and put/call rights present in many deals. A particularly creative 2025 transaction was XOMA Royalty Corporation's recently announced strategic royalty share agreement with Takeda, under which Takeda's royalty and milestone payment obligations related to Mezagitamab were reduced while XOMA will now receive royalty and milestone payments across a basket of nine different development-stage assets held within Takeda's externalized assets portfolio. In parallel, hybrid financing structures that blend traditional royalty economics with elements of term debt or structured credit are becoming increasingly prevalent. These transactions may incorporate caps on total returns, milestones, debt-like covenants or even make-whole payments at a maturity date.

Looking ahead to 2026, the royalty financing and monetization market is expected to maintain momentum and continue to grow. On the capital-raising side, a Deloitte royalty market study reported that 87% of surveyed biopharma executives expect to incorporate royalty financing into their capital-raising strategies over the next three years. On the investor side, the expanded capabilities of leading participants in the royalty financing sector, together with the increased committed capital of other established biotech funds, indicate an active outlook for 2026. Although macroeconomic and policy variables, including interest rate trajectories, equity market performance, and regulatory developments, will continue to influence deal dynamics, royalty financing is expected to retain a central role in the life sciences funding landscape throughout 2026 and beyond.

For more information on 2025 royalty financing transaction activity, see Gibson Dunn's Royalty Finance Tracker.

Collaborations and Licensing

2025 life sciences licensing activity remained resilient and increasingly sophisticated, with stable deal volume, heightened structural customization, and growing geopolitical and technology-driven considerations shaping how biotechs and large pharmaceutical companies approach partnerships heading into 2026.

Licensing and collaboration activity in the life sciences sector remained robust through 2025, supported by sustained demand for externally sourced innovation and disciplined capital deployment. Large pharmaceutical companies, in particular, utilized licensing as a surgical tool to address near-term pipeline gaps ahead of the "2026–2030 patent cliff."

Global biopharma licensing transactions in the first three quarters of 2025 reached approximately $181.5 billion in announced deal value. While this pace is up slightly versus 2024's full-year $188.6 billion, deal volume reflected a pronounced "flight to quality." Licensees showed a renewed interest in earlier-stage platforms in selected high-growth areas, while late-stage, de-risked assets continued to command premium economics.

This pattern is exemplified by Gibson Dunn's representation of Arrowhead Pharmaceuticals in its global licensing and collaboration agreement with Novartis for its ARO-SNCA program. This deal—featuring a $200 million upfront payment and up to $2 billion in milestones—demonstrates how high-conviction partners rely on structured alliances to access platform innovation while surgically allocating development, manufacturing, and commercialization risk.

Therapeutically, metabolic disease and weight-loss programs remained a primary engine of activity in 2025. Building on the GLP-1 momentum of 2024, partners increasingly competed for "next-generation" assets offering differentiation on dosing convenience and long-term cardiometabolic outcomes, rather than first-generation efficacy alone.

The Arrowhead-Novartis transaction also underscores a broader neurology rebound. After years of secondary status to oncology, high-value bets in neurodegenerative diseases (like Parkinson's) surged, signaling a renewed pharma appetite for large-market, high-unmet-need categories where RNAi and other novel modalities are finally showing clinical scalability.

The geopolitical landscape exerted a definitive influence on the sector with the enactment of the BIOSECURE Act in December 2025. This legislation has precipitated a fundamental restructuring of global supply chains, turning manufacturing and CRO diligence into top-tier deal hurdles. Strategic partnerships in 2026 are now incorporating sophisticated provisions focused on supply chain sovereignty, including "step-in" rights and remediation triggers tied to a partner's regulatory designation.

Cross-border licensing involving China reached a historic peak in 2025. Through the end of Q3 of 2025, approximately 38% of major global biopharma deals originated from Chinese companies, accounting for roughly 30% of total upfront payments. This trend underscores the role of China-origin innovation as an essential contributor to global pipelines. Looking ahead to 2026, this activity is expected to remain high but will be increasingly structured around heightened CFIUS and national security screening considerations, operational separability, data provenance, and supply-chain independence.

Heading into 2026, the licensing landscape should balance a continued appetite for high-value assets with regulatory and technology headwinds. The 2026 market likely will be defined by structural sophistication over volume expansion. Strategic collaborations that integrate global development rights, risk-sharing models, and technology-enabled R&D are likely to remain central to sustaining innovation in the year ahead.

Regulatory Environment

In 2025, life sciences companies faced a fast-moving regulatory environment shaped by the Trump administration's priorities, including deregulation, the use of policy levers to encourage domestic manufacturing and development, and efforts to reduce healthcare costs for American consumers. We expect this unpredictable atmosphere to continue into 2026. In particular, we anticipate regulatory and enforcement developments in FDA regulation, drug pricing and reimbursement, government contracts, tariffs, and antitrust oversight, although specific outcomes and impacts remain difficult to predict.

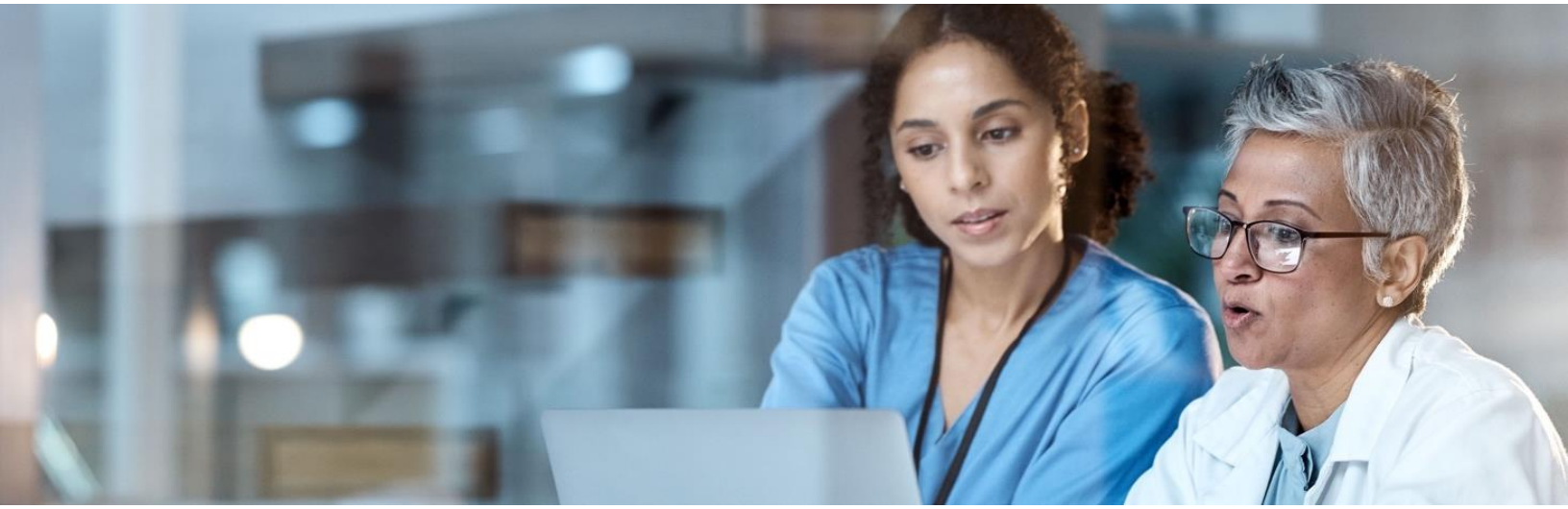
We anticipate that FDA will continue to develop and implement initiatives aimed at accelerating medical product development and review and inducing industry to domesticate manufacturing. For example, FDA has taken steps to provide "radical transparency" to biopharmaceutical companies by: publishing complete response letters it has issued to applicants; a roadmap to reduce animal testing requirements for investigational new drug applications in favor of machine learning and artificial intelligence-based computational models and other new approach methodologies; acceptance of real world evidence in marketing applications without requiring identifiable patient data from real-world data sources; and, issuance of "Commissioner's National Priority Vouchers" for programs aligned with "national priorities," including affordability. We also expect continued scrutiny of foreign manufacturing and testing facilities, particularly in China and India, which may impact companies that rely on ex-U.S. establishments for U.S.-bound products. In addition, FDA enforcement may align with the Make America Healthy Again movement, including targeting purportedly violative direct-to-consumer advertising and shifts in vaccine policy.

We expect pharmaceutical manufacturers to experience continued pressure on pricing and reimbursement, even absent direct congressional action. On July 31 2025, President Trump sent a letter to leaders of 17 global pharmaceutical manufacturers seeking specific actions to reduce U.S. prices (e.g., lowering prices for all Medicaid patients to most-favored nation prices, launching all new drugs at MFN prices, and selling products directly to patients at decreased prices). By the end of 2025, 14 of those manufacturers had reportedly reached agreements to implement key aspects of the Administration's approach. We also anticipate continued use of enforcement tools entrusted to DOJ, FTC and HHS to influence reimbursement-related conduct, including through aggressive interpretations and applications of the False Claims Act and Anti-Kickback Statute to market access and related business arrangements.

Life sciences companies holding U.S. government contracts should also expect heightened scrutiny, tighter compliance obligations, and increased supply-chain diligence, including as agencies implement and potentially enforce the Biosecure Act (passed as part of the FY2026 National Defense Authorization Act) and related national security initiatives. Agencies may move from policy signaling to operational enforcement through expanded certifications, flow-down requirements, and enhanced audit rights focused on foreign ownership, control, influence, and data-handling practices—particularly with respect to China-linked entities. Greater coordination among contracting agencies, DHS, DOJ, and inspectors general could increase the likelihood that compliance gaps surface in bid protests, False Claims Act investigations, and responsibility determinations. Contractors should plan for more rigorous pre-award diligence, ongoing monitoring of counterparties, and integration of national-security risk assessments into procurement, M&A and R&D strategies.

Tariff policies are also likely to remain fluid and tied to negotiated outcomes. Although the future of the Administration's country-based tariffs under the International Emergency Economic Powers Act remains uncertain pending a Supreme Court decision expected in the first half of 2026, a ruling against those tariffs would not eliminate exposure for life sciences companies because tariffs specific to biomedical products and inputs are expected to proceed, if at all, under Section 232 of the Tariff Expansion Act of 1962. Since late September, Section 232 tariff threats on branded pharmaceuticals have reportedly been used to secure commitments on U.S. investment, domestic capacity, and price/access concessions, with at least nine companies reporting tariff-relief arrangements by the end of 2025. A new Section 232 investigation into PPE, medical consumables, and medical equipment/devices could lead to targeted tariffs that raise costs and disrupt supply for import-reliant medtech and diagnostics companies. While APIs and generics have not been a primary focus to date, Commerce has characterized APIs, generic drugs, and other upstream materials as "critical inputs," creating a pathway for spillover; companies should also assume any IEEPA tariff relief could be short-lived if replaced through other mechanisms.

In 2026, life sciences companies should expect continued antitrust enforcement, albeit with greater predictability and more conventional legal theories than during the prior administration. The FTC is expected to continue close scrutiny of pharmaceutical and medical-device deals involving overlapping portfolios or pipelines, but with greater openness to targeted divestitures. Non-merger enforcement—particularly around contracting and rebating practices—will likely remain a priority for federal and state antitrust enforcers.



Conclusion

The life sciences industry enters 2026 with renewed momentum, supported by a meaningful rebound in deal activity, continued scientific innovation, and the increasing sophistication of capital formation and risk-sharing structures. Strategic imperatives are expected to remain powerful drivers of M&A, licensing, and alternative financing activity in the year ahead. Capital markets will likely remain selective; however, deal activity from the second half of 2025 suggests that 2026 could be the strong year that many initially expected 2025 to be. At the same time, a more stable regulatory environment and improving credit conditions may further support transaction execution, particularly for high-quality, well-differentiated assets.

Counterbalancing these tailwinds is a complex risk landscape. Geopolitical uncertainty, trade and tariff policy, supply-chain localization requirements, and continued scrutiny of pricing, reimbursement, and antitrust conduct will require careful navigation.

Despite these challenges, the outlook for 2026 remains constructive. Large pharmaceutical companies are expected to remain active acquirers and partners as they address near-term pipeline gaps and longer-term platform needs, while biotech companies increasingly deploy flexible financing tools, such as royalty monetization, structured collaborations, and milestone-based transactions, to advance programs without excessive dilution.

Ultimately, companies that demonstrate scientific rigor, capital discipline, and strategic adaptability, particularly in structuring transactions, managing regulatory risk, and aligning assets with clear commercial pathways, will be best positioned to succeed in 2026. While execution risks remain, the industry appears better equipped than in recent years to translate innovation into durable value creation in the year ahead.

Stay in touch with the latest developments and insights shaping the life sciences industry through our **Biotech Briefings** blog at: biotechbriefings.gibsondunn.com.

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