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Life Sciences 2026

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USA: Trends and Developments

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Ropes & Gray

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Ropes & Gray

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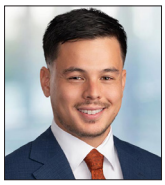

Toby Shao joined Ropes & Gray's corporate department in 2025 as an associate. While at UCLA School of Law, he was part of an award-winning team recognised with second place in the University-wide Sandler Entrepreneurship Challenge, and he served as Career Forum Chair of the UCLA Journal of Law & Technology, where he spearheaded record-setting fundraising for the University through panel sponsorships. He also externed with the California Department of Justice's Privacy Unit, gaining experience with cutting-edge privacy and data protection issues.

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The US life sciences industry experienced a turbulent but ultimately productive year in 2025. The public markets saw a volatile downward swing in the first half of 2025, but quickly regained footing and rebounded in the second half of the year. Venture investment remained tempered throughout the year, signalling continued discipline among investors. M&A largely tracked the upward trend of the public markets, with an initially muted start followed by a strong uptick in deal volume to close out 2025. Licensing deal volume rose strongly in 2025, with continuing prominence in Chinese in-licensing. This article explores these and other key trends of the life sciences sector in 2025 and offers insights into how they may shape what's to come in 2026.

Market Trends

After a volatile bear market in the first half of the year, the public markets for the biotech industry surged in the second half of 2025. At the beginning of the year, industry watchers at Fierce Biotech predicted that the US biotech industry stock average, as measured by the S&P XBI, was poised for a rebound after a multi-year post-COVID slump. However, these hopes began to wane as the administration's tariff concerns brought intense volatility to the sector, with the index bottoming out in April. The latter half of 2025, however, told a different story, with the index rebounding rapidly from the early 2025 troughs and helping to reset investors' issuance expectations through the end of 2025 and even continuing into 2026. IPO activity remained disciplined in 2025, with only USD1.6 billion raised from nine biopharma companies going public, compared to USD3.8 billion raised from 19 biopharma IPOs in 2024, and marking 2025 as the lowest year for IPO capital raised in the last five years.

February kicked off 2025 with two of the most notable IPOs of the year: Metsera and Sionna Therapeutics. Metsera, a company that advanced a long-acting GLP-1 toward late-stage development, raised USD312.2 million; the company later became the target of a subsequent high-profile bidding war between Pfizer and Novo Nordisk. Sionna debuted at USD191 million, funnelling the cash into a cystic fibrosis drug, SION-719, which reached a Phase II study in October 2025, and another cystic fibrosis drug, which conducted a Phase I trial in August last year. As the bear market swung to recovery in the second half of the year, LB Pharma, a company specialising in neuropsychiatric drugs, raised USD285 million in an IPO while advancing its antipsychotic LB-102 toward Phase III for schizophrenia and another drug for bipolar disorder.

Follow-on issuances outpaced IPO volume in 2025, with USD56 billion of equity issued, showing strong investor demand for high-quality biotechs, according to analysts at Stifel. Although follow-on volume was relatively subdued in the first half of 2025, it surged in the second half of 2025. Based on this trend, Stifel analysts said they expect 2026 to usher in an increased volume of IPOs, with a focus on companies with strong proof-of-concept data. Endpoints News echoed this, saying the biopharma market might outpace the broader consumer market based on early 2026 sentiment data.

Venture equity deals were subdued in 2025

US biotech venture and biopharma venture equity deal volumes in 2025 were both down slightly from 2024 levels, but remained higher than 2023 levels, according to Stifel. However, average biotech venture deal size hit a record high in 2025, albeit only rising from USD66 million to USD67 million, with venture financing concentrated into fewer but larger deals, favouring later-stage companies. In 2025, 80 venture rounds surpassed USD100 million, down from 104 in 2024, which signalled investor prioritisation of de-risked opportunities. Meanwhile, European biopharma venture equity deal volume increased by approximately USD300 million from levels in 2024, and, despite seeing a similar deal count to 2024, with average deal value reaching record highs, increased by 62.5% over 2024's annual total by October of 2025. In Europe, early-stage rounds represented the largest share of this deal value and volume.

With venture capital continuing to be restrained, J.P. Morgan noted that in 2025, value creation increasingly came from licensing upfront payments rather than venture rounds. This shift reflected continued investor preference for de-risked opportunities, which was further underscored by the growing dominance of later-stage round venture funding. Additionally, companies with assets in Phase II and later stages continued to

see an upward trend in median venture round sizes, while funding for companies focused on preclinical and Phase I assets lagged.

The outlook for 2026 among industry observers is still positive, with venture capital funding expected to increase and for the recent trend of capital concentrating into larger rounds for later-stage start-ups to continue. Commentators noted the first weeks of 2026 showed signs of increasing biopharma venture activity. Furthermore, growing investor interest in the neurology space generated enthusiasm as a new source of capital. Notable neurology financings in 2025 included LB Pharma's successful IPO, discussed above, and MapLight Therapeutics' USD372 million Series D raise. Commentators noted venture investors are expected to continue prioritising de-risked opportunities and validated pathways, though industry advisors express hope that biotechs focusing on early-stage novel science and pathways will see an increase in venture financing and deal activity generally going forward.

Deal-Making Trends in 2025

M&A activity centred on targeted, later-stage assets, with a slow start but strong second-half surge in 2025

While the outlook heading into 2025 was strongly optimistic, policy uncertainties caused M&A deal-making to lag in the first half of the year. In the second half of 2025, there was a marked uptick in the volume of biotech and specialty pharma M&A, with two consecutive USD30 billion activity months in September and October, which was atypical according to Stifel. Eight of the ten largest transactions of 2025 occurred in the second half of the year, with six of those taking place in the fourth quarter. Despite the absence of any deals over USD15 billion or horizontal mergers between larger pharmaceutical companies, biopharma M&A volume in 2025 was the third highest on record and the highest annual total since 2019.

Commentators noted that this increase in M&A activity appears to be driven by companies seeking to fill pipeline gaps with innovative, targeted, de-risked assets, particularly in rare disease, next-generation biologics, and oncology. Similar to venture investors, acquirers tended to target later-stage assets, ranging from Phase II through commercialisation. Notable transactions included Johnson & Johnson's acquisition of Intra-Cellular Therapies for USD14.7 billion, Novartis's acquisition of Avidity for USD11.4 billion, and Merck's acquisition of Verona Pharma for USD11 billion.

Deal activity was also shaped by Big Pharma's interest in single-asset, "spin-out" transactions, including Lilly's acquisition of the lead asset from Scorpion, Sanofi's acquisition of assets from Dren Bio and AbbVie's acquisition of a psychedelic programme from Gilgamesh Pharmaceuticals. While Big Pharma was still slow to acquire large platform biotechs with numerous expensive to develop programmes, these "spin-out" transactions allowed Big Pharma to acquire desired assets and programmes, without over-committing.

The acceleration of M&A towards the end of 2025 paints a more optimistic outlook for 2026. For example, Stifel and CNBC, among others, predicted that larger M&A deals may be likely in 2026 in light of global biopharmaceutical companies' impending patent cliffs and record levels of financial firepower. M&A activity in 2025 was tilted toward these asset-centric transactions to fill pipeline gaps, and many observers have said they expect to see continued growth in 2026. Other factors commentators have cited in predicting continued M&A growth in 2026 are China's biopharma sector's growth and AI's impact on R&D. Notably, Chinese biopharma accounted for five of the ten largest M&A deals in 2025.

Although biopharma deal-making was relatively quiet in the lead up to the 2026 J.P. Morgan Healthcare Conference, this has not dulled optimism about industry momentum going forward, according to Pitchbook. A survey of biopharma industry professionals and executives showed rising confidence for 2026, with 65% predicting the coming year would have more deals than 2025.

Licensing soared in headline value in 2025, with steady upfronts and large volumes in various clinical areas

The licensing market experienced a surge in deal volume during 2025: this trend became apparent in the

first half of the year, when publicly announced licensing deal value reached approximately USD119.9 billion, with Q2 alone contributing USD59 billion. By the end of the year, licensing total deal values had climbed to over USD250 billion across 516 deals, significantly outpacing the yearly volume of the past five years.

The cadence and size of upfront payments in licensing deals increased over 2024 benchmarks – by mid-2025, there were 21 licensing deals with disclosed upfront payments of USD100 million or more, compared with 34 such deals in all of 2024. Drawing a sharp contrast to venture financings in 2025, licensing transactions delivered 41 upfronts exceeding USD100 million by the end of Q4.

Cross-border dynamics, particularly involving China-based firms, played a prominent role in 2025 licensing activity. As noted above, five of the top ten 2025 R&D licensing partnerships involved China-based firms, including landmark alliances such as the GSK-Hengrui deal (approximately USD12.5 billion potential value; USD500 million upfront) and the Pfizer-3SBio deal (approximately USD6.3 billion potential value; approximately USD1.25 billion upfront plus equity), evidencing China's expanding role as a source of early-stage assets across respiratory, immunology and oncology.

Clinical and modality focus areas for licensing deals remained broad in 2025. Oncology and cardiometabolic indications figured prominently, as did RNA interference ("RNAi") deals. Examples include:

- Swiss giant Novartis licensing global rights ex-China to multiple dyslipidaemia programmes from Chinese start-up Argo, with USD160 million upfront and up to USD5.2 billion in milestones;
- US biotech firm Braveheart Bio's licensing of Hengrui Pharma's Phase III small molecule HRS-1893 to treat hypertrophic cardiomyopathy; and
- California-based Genentech and Oxford-based OMass Therapeutics' small molecule licensing deal with USD65 million in upfront payments eligible for more than USD400 million in milestone payments focused on irritable bowel disease.

PwC expects licensing to remain a primary vector for accessing innovation in 2026, driven by the same factors that drive the M&A market – mounting loss-of-exclusivity pressures and licensees' emphasis on differentiated, later-stage assets and platform optionality. More specifically, PwC expects deal-making to accelerate with disciplined portfolio-shaping, cross-border co-development, and flexible structures such as options, milestones, and royalties to manage risk while securing scarce innovation. A CNBC report concurred, citing the continued threat of biopharma's patent cliff as driving licensing activities.

Life Sciences Deal-Making Trends Looking Forward to 2026

Companies continued to test AI applications in life sciences innovation

Integration of AI platforms deepened in 2025, but real impact, according to Deloitte, depended on data, workflows and governance. Medtech and biopharma moved from pilots toward broader deployment of generative AI in the development of new platforms, lab processes and day-to-day operations in 2025, with value hinging on productivity data and standardised lab processes to scale safely and reliably. For example, as detailed by the World Economic Forum, Novartis explored a generative design approach that computationally screened 15 million compounds for brain-penetrant degraders and "digital cell" simulations that toggled thousands of genes to identify new ADPKD targets, showing measurable progress in the area.

Tech-bio partnerships scaled "lab-in-the-loop" discovery in 2025. Biopharma paired internal models and proprietary datasets with cloud and accelerated-compute partners in an attempt to drive iterative design-make-test-learn loops at scale, enabled by digitised experiments, interoperable platforms and standardised data capture to make AI outputs reproducible across sites and partners. "Technology convergence" efforts – combining AI with robotics, simulation/digital twins and other advanced technologies – also expanded in 2025, restructuring value chains and highlighting governance needs as deployments scaled.

Commentators said they expect broader AI adoption to continue across target discovery, generative chemistry and predictive safety – paired with stronger mod-

el-risk management, bias mitigation and operating-model changes – to capture ROI through cycle-time compression, higher-quality hits and earlier safety screens. A report from the World Economic Forum said that programme playbooks point to expanding use of large-scale generative design and simulated experiments alongside ethical frameworks as deployments widen in 2026. Meanwhile, a Fierce Pharma report predicted that the shift from generative AI to agentic AI could result in a temporary stall in adoption and implementation in delivering product lines, but said any such slowdown will likely be temporary.

Continued interest in obesity-related drugs

The GLP-1 market has become one of the most competitive areas of the industry, driving major pharma companies to pursue next-generation GLP-1 assets through internal development and acquisition. With over 120 metabolic assets in development across 60 companies, there is no shortage of potential acquisition targets. The high-profile bidding competition between Pfizer and Novo Nordisk over Metsera signalled growing urgency in the GLP-1 market, with competition poised to intensify as differentiation opportunities shrink and supportive policy developments expand market access.

Additionally, industry analysts have predicted that oral GLP-1 formulations will take centre stage, with major approvals expected in 2026. Pitchbook noted that Novo Nordisk and Eli Lilly are now competing primarily on manufacturing capacity and direct-to-consumer distribution rather than clinical data, and suggested newer entrants in this space may struggle to carve out market share without clear efficacy or tolerability advantages over the established players.

GLP-1s have also made headlines in the policy realm. The two incumbents in the GLP-1 space, Eli Lilly and Novo Nordisk, entered into pricing agreements with the Trump administration covering their GLP-1 drugs Zepbound (Lilly) and Ozempic and Wegovy (Novo Nordisk). Eli Lilly's agreement also reportedly included its recently-approved oral GLP-1, orforglipron.

Chinese biotech is here to stay

China's favourable biotech policy environment continued to incentivise innovation, solidifying its rise in the biopharma industry, according to reporting by Forbes. Chinese biotech firms have delivered novel assets across multiple clinical areas, including cancer, inflammation, cardiometabolic diseases and rare diseases. Chinese biotechs have demonstrated greater efficiency in drug development, leveraging their advantage in biomanufacturing and strong government grants and domestic PE/VC investments, according to Stifel analysts.

China-to-West licensing has also driven transaction volume. As Western drugmakers' pipelines have thinned, they have turned to China to source novel molecules, with one-third of all licensing and collaboration capital going to Chinese companies in 2025. Top deals included a USD12.5 billion agreement between GSK and Shanghai-based Jiangsu Hengrui Pharmaceuticals Co., Ltd., signed in July, granting to GSK an ex-China worldwide licence for the company's chronic obstructive pulmonary disease (COPD) drug candidate along with 11 other drug candidates across several clinical areas that could lead to milestone payments of up to USD12 billion. AstraZeneca also signed a deal with Chinese firm CSPC worth up to USD5.2 billion in June.

Stifel analysts warned that the intensity of China's pharmaceutical industry growth has the potential to outpace US and European innovation. PwC similarly predicted that cross-border licensing deals with China will continue to reshape global pharmaceutical pipelines.

In contrast, Fierce Pharma suggested that nation-state competition could cool on cross-border licensing and collaboration, pointing to the passage of the BIOSECURE Act and other developments in US industrial policy, which may put pressure on US biotech companies to increase investment in domestic bioscience innovation and manufacturing capacity.

Policy and the current administration

After a turbulent 2025 policy-wise, including threats of high tariffs on the industry, cuts to federal health agencies like the FDA, and the administration's brokering of most-favoured nation (MFN) drug pricing agreements with the major pharmaceutical companies, outlook among analysts for 2026 was optimistic.

Stifel opined that the policy environment, despite past volatility, will stabilise and the industry may face less intense focus. With big pharma's MFN pricing deals with the current administration behind them and with the administration's messaging that if those companies invest in onshore manufacturing, they would be free from additional tariffs, there was growing optimism of brighter days ahead. However, other commentators remained concerned that uncertainties of MFN application to the many companies that have yet to enter into agreements with the administration, and to smaller biotechs, may plague the industry into 2026 and stymie growth and investor confidence.

Conclusion

The life sciences industry navigated a challenging landscape in 2025, marked by early policy uncertainty that gave way to a strong second-half rebound in public markets, M&A and licensing activity. Licensing deal values climbed well above recent benchmarks, with transactions involving Chinese biotech firms playing an increasingly prominent role. Venture capital, while subdued, reflected continued deployment toward de-risked, later-stage opportunities. The trends that shaped the sector's upward trajectory to close the year are poised to carry into 2026, with the impending patent cliff expected to continue driving both M&A and licensing activity as companies seek to fill gaps in their pipelines. The intensifying GLP-1 market and advancing AI applications in drug discovery will likely continue to influence innovation and deal activity. While the policy environment appears to be stabilising, uncertainties around MFN pricing, tariffs, and the BIOSECURE Act will introduce both opportunities and challenges in the year ahead.

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