Life Sciences Snapshot

A Quarterly Report on Financing Trends

Global Trade, Local Impact: How Shifting Trade Dynamics Are Reshaping U.S. Healthcare

Q2 2025

orrick

Data provided by

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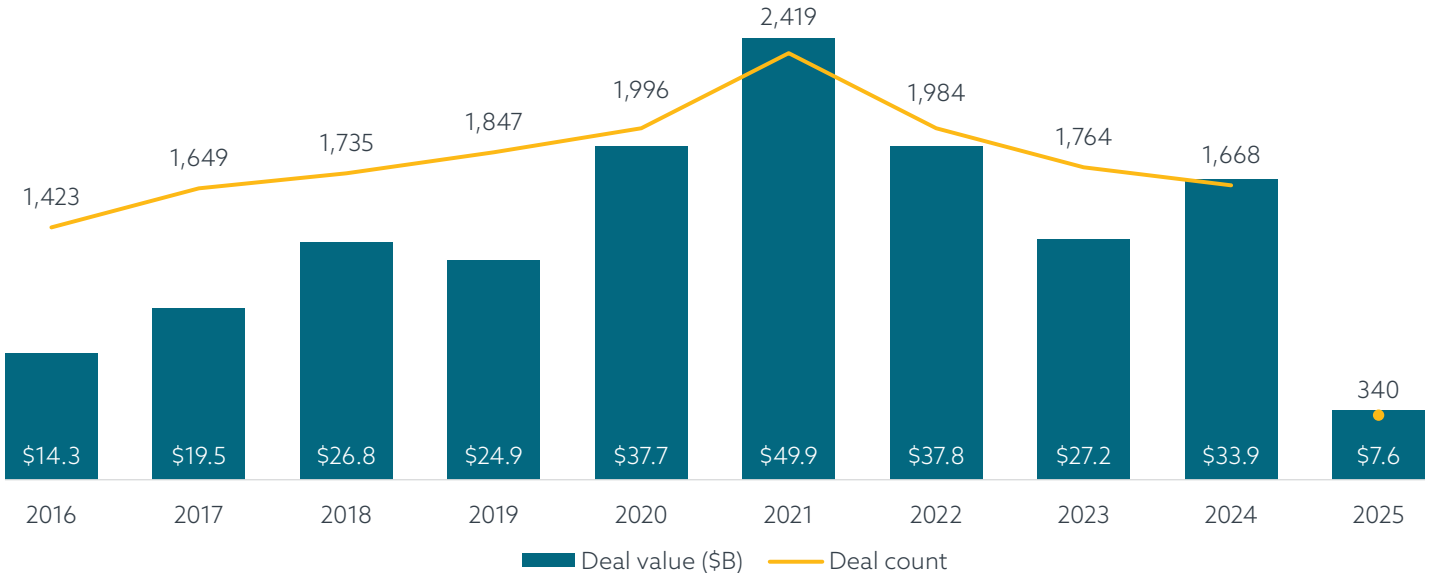
Key Takeaways

Life sciences VC deal activity



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As of March 31, 2025

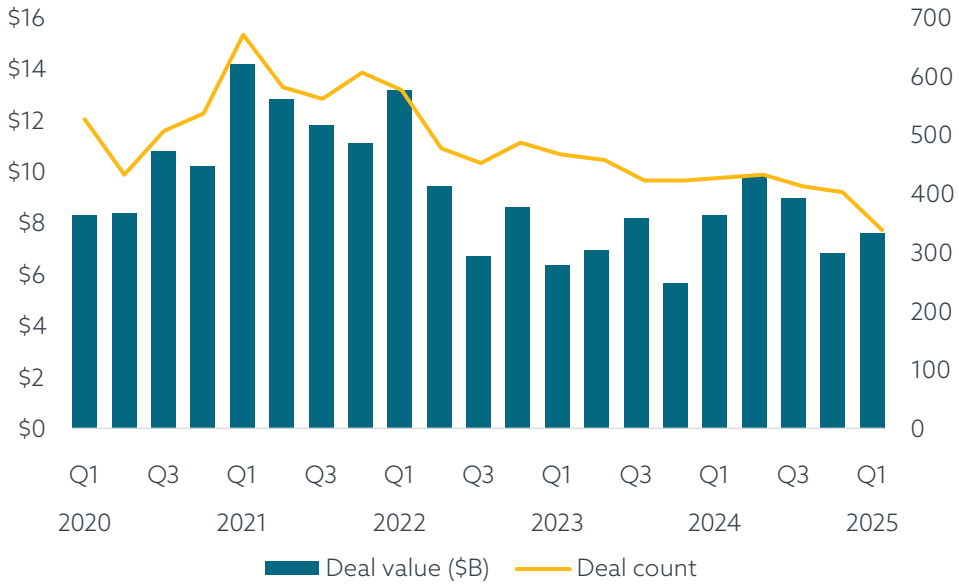
Q1 2025 marked another strong quarter for life sciences VC financing, but the industry faces unique headwinds amid ongoing shake-ups in regulatory leadership and US trade relationships. Key takeaways for Q1 2025 include:

- Industry dealmaking maintained momentum in Q1 2025 after closing out its first year of cumulative value growth since 2021. Quarterly deal value grew 10.6% QoQ, while deal count dropped 15.0%.
- Median pre-money valuations rose in Q1 for all company stages except pre-seed/seed, which declined by 20.6%. This drop erased most—but not all—of the growth achieved in 2024.
- Median check sizes grew QoQ for all stages, with the venture-growth stage seeing the greatest momentum at 85.9%. Concentration of activity within larger deals subsided a bit at the start of the year, with deals of $100 million or more representing 41.3% of total deal count, down from 49.4% in 2024.
- Exit activity slowed in Q1, but stronger IPO prospects materialized. Seven companies filed for an IPO, a rate on pace to exceed the annual number of listings each year since 2021. IPOs collectively drove $3.7 billion in value, exceeding that of acquisitions for the first time since 2021 as well. Market volatility presents headwinds against this continued momentum.

Market Analysis

Macroeconomic risk cemented itself in headlines over the first few months of the year, tempering expectations of a 2025 dealmaking resurgence. New regulatory leadership and turnover has occurred at the US Department of Health and Human Services agencies, including the Food and Drug Administration, the Centers for Disease Control and Prevention, and the National Institutes of Health. This has introduced uncertainty around the speed of upcoming drug and device approvals. US tariff policy shifted significantly in Q2, introducing more supply chain turbulence for many industries. US companies source a large share of critical drug ingredients from India, Europe, and China,[1] while the country's top

Life sciences VC deal activity by quarter



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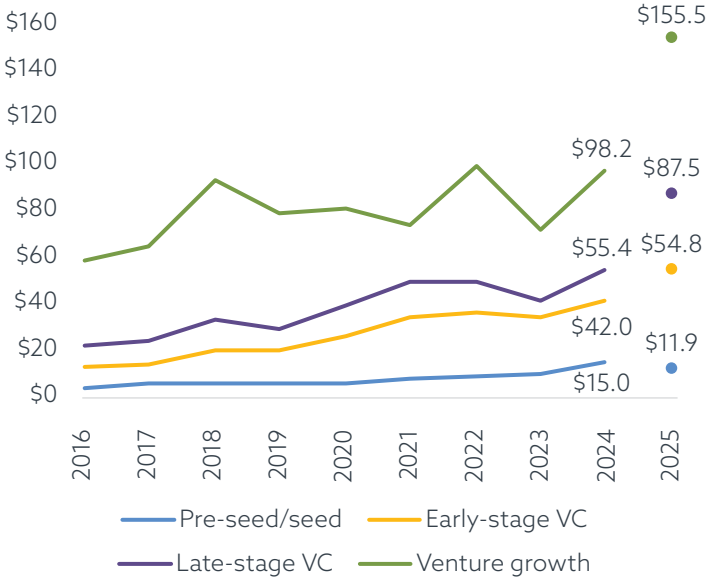
Median life sciences VC pre-money valuation ($M) by stage



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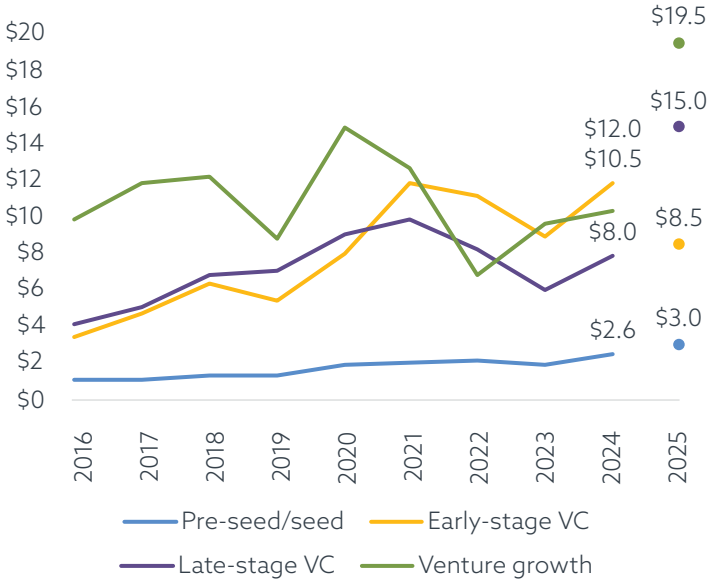
Median life sciences VC deal value ($M) by stage



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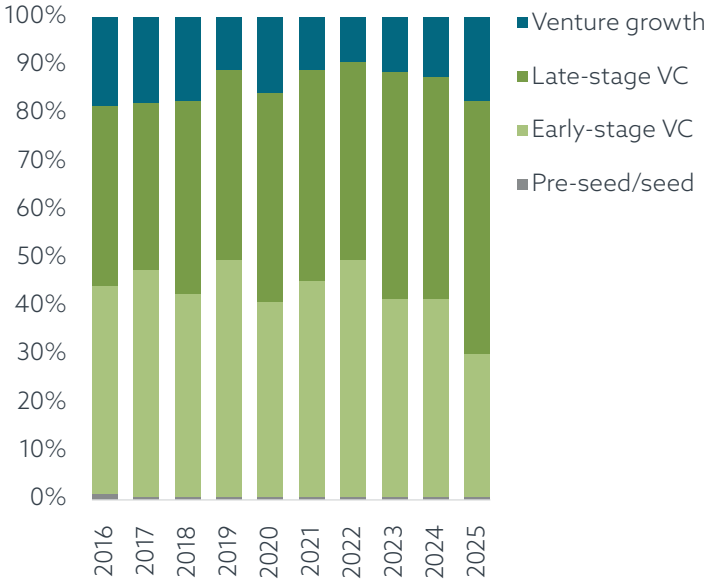
1: "Geographic Concentration of Pharmaceutical Manufacturing: USP Medicine Supply Map Analysis," The United States Pharmacopeial Convention, Vimala Raghavendran and Matthew Christian, May 18, 2022.

Share of life sciences VC deal value by stage



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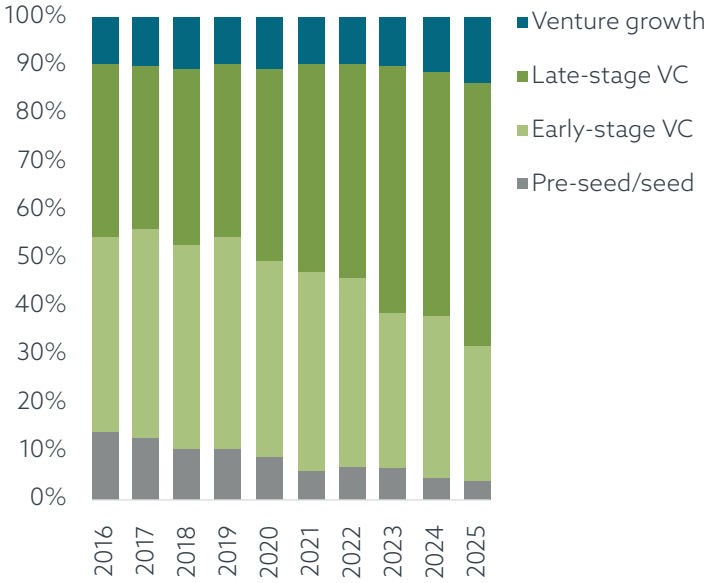
Share of life sciences VC deal count by stage



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sources of medical device imports include Mexico, the EU, and China.[2] Tariffs will more than likely impact bottom lines, but pharmaceutical products are currently exempt from tariffs, which may insulate a large segment of the broader life sciences industry from related turbulence if their exemptions are maintained.

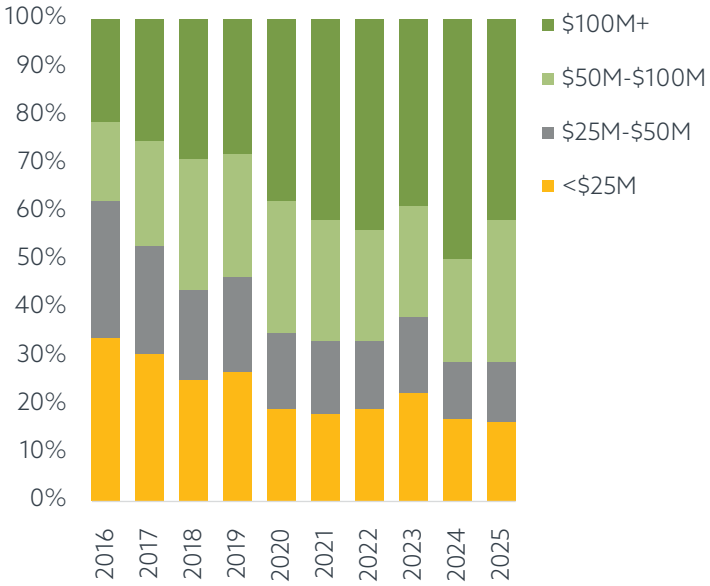
Investors forged ahead through this near-term uncertainty, writing several large checks for a variety of indications. The largest deals closed in Q1 include Eikon Therapeutics' $350 million Series D for treatment of grievous illnesses, Kardigan's $300 million Series A to target unmet cardiovascular needs, and Aviceda Therapeutics' $207.5 million Series C for its lead geographic atrophy program.

Total deal flow reached $7.6 billion, notching double-digit growth QoQ. More than half of this sum was derived from later-stage deals, underscoring a continued trend of investor preference for deals perceived as lower risk. At the same time, the concentration of activity within larger deals subsided, with deals over $100 million each representing 41.3% of total deal count, down from 49.4% in 2024. In other words, the industry shifted in favor of more mature companies, but not necessarily larger check sizes. Relatedly, the most nascent stage—pre-seed/seed—was the only category to experience a decline in its median pre-money valuation for the quarter, while the more mature categories saw material increases, indicating a reset in valuation expectations for emerging companies.

Exit flow slowed in Q1, with 21 transactions marking a QoQ decline of more than one-third. However, Q2 2024 marked a similar low count and was followed by two stronger quarters, so it is important to note that one slow quarter may not define the entire year. Stronger IPO prospects materialized in Q1 2025 with seven listings, a total on pace to exceed the annual number of public listings each year since 2021. IPOs collectively drove $3.7 billion in value, exceeding that of acquisitions for the first time since 2021 as well. The largest IPO of the quarter was closed by weight-loss drug developer Metsera, which raised $275 million in its debut. The growth of GLP-1s and other weight-loss drugs continues to carry material VC investments, and with market leaders established, exit activity could see a boost from certain players that have successfully executed on growth and expansion plans. However, markets face fresh macro turbulence following these listings. The longer-term outlook for exits is boosted by the resilience in dealmaking shown in 2024, but the industry faces unique challenges in the second half of 2025.

2: "U.S. Medical Devices: Imports and Exports, the Role of Tariffs and of the FDA," Informa Markets, March 13, 2020.

Share of life sciences VC deal value by size bucket



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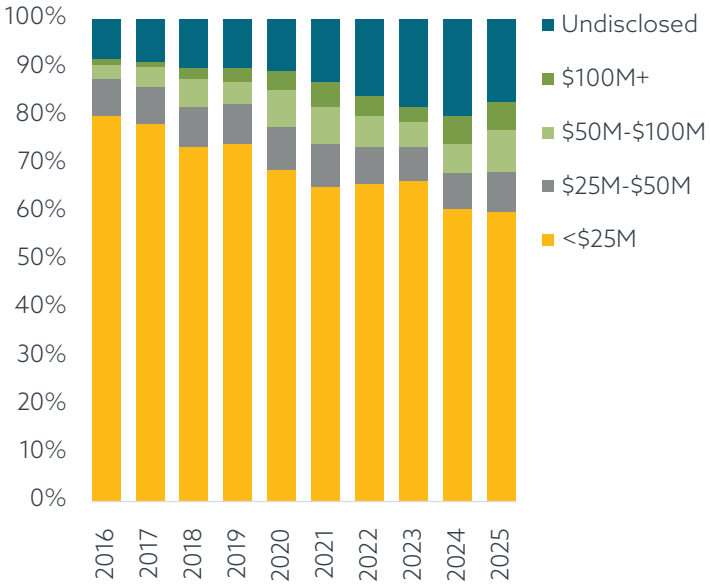
Share of life sciences VC deal count by size bucket



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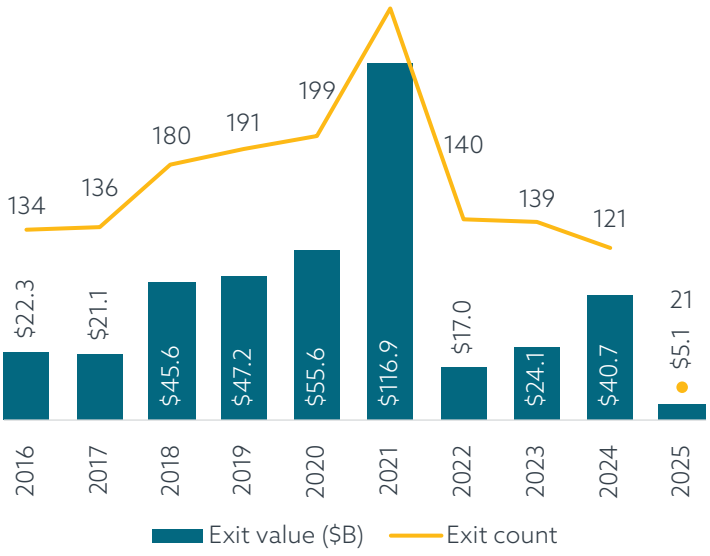
Life sciences VC exit activity



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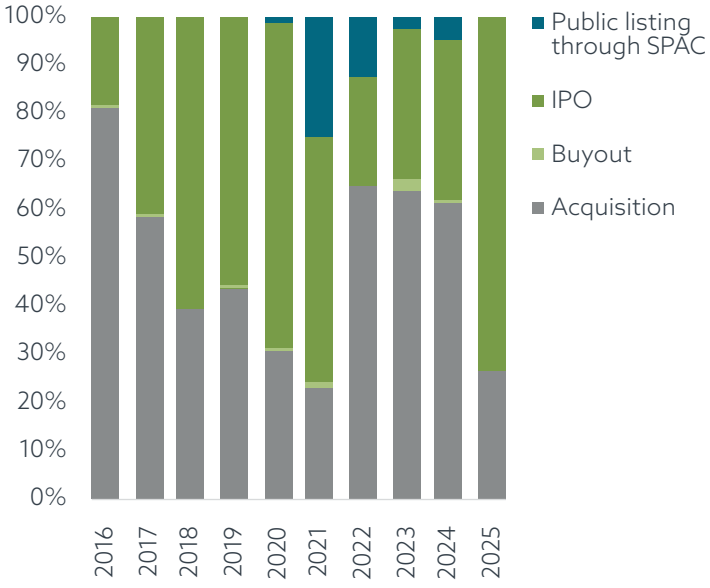
Share of life sciences VC exit value by type



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Roundtable

Panel

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Partner, Orrick

Jeremy Slaga
Chief Integration Officer, Temple Health

Randy Scott
Partner, HealthQuest Capital

Moderator

Neel Lilani
Global Head of Tech Clients, Orrick

INTRODUCTION

As the global trade landscape undergoes dramatic shifts—from geopolitical tensions to post-COVID supply chain restructurings—U.S. healthcare is being reshaped in ways that affect innovation, investment, and equity. This panel brought together investors, health system leaders, and legal advisors to examine where vulnerabilities remain and what can be done to build resilience.

Neel Lilani: Welcome, everyone. We're excited to host this conversation about how shifting global trade dynamics are shaping the future of U.S. healthcare. This is a topic that's increasingly important, especially in the wake of COVID-19 and the continued geopolitical and economic uncertainty globally. We've seen disruption in everything from APIs to advanced biotech research. I want to start by asking:

What are the biggest vulnerabilities in today's U.S. healthcare supply chains—and how are companies and health systems addressing them post-COVID?

Jeremy Slaga: One of the most significant issues we've seen post-COVID is the lack of visibility in the supply chain. Our health systems experienced critical shortages of everything from surgical gloves to generic medications. That made us rethink how we source and store. We've started partnering directly with manufacturers and investing in real-time tracking systems. It's not just about stockpiling—it's about smarter procurement.

Randy Scott: As an investor in high-growth companies we have to answer two questions, sometimes independently: how can we make sure we always have a reliable source of supply regardless of cost – that's the existential question – and then we need to believe that we can find a cost-effective source of supply in some time frame. Smaller companies can't always optimize for both things at the same time.

Jeanine McGuinness: We've also seen how regulatory divergence—especially between the U.S., EU, and China—has complicated sourcing. For example, export controls add legal and operational risk. And post-COVID, companies are looking not just at cost, but at how regulatory frameworks will evolve and whether their supply chains can withstand future shocks.

Neel Lilani: In a little over three months, the administration has issued hundreds of pages of executive action on tariffs – some actions imposing new import duties; some "pausing" their

implementation. How has this environment of unpredictability affected company decision making about matters such as international sources of components and, more broadly, whether and when to pursue in-development projects?

Jeremy Slaga: It's definitely creating headwinds. At Temple, and more broadly across the provider landscape, we're seeing a lot more hesitation when it comes to locking in long-term sourcing agreements—especially when those sources are overseas. This unpredictability around tariffs makes it incredibly difficult to plan procurement cycles, particularly for items with long lead times or complex regulatory requirements. We've had to strategically pause some projects to ensure we have a comprehensive understanding of future cost bases, allowing us to make more informed and effective decisions moving forward. And frankly, we're starting to factor political volatility into our capital planning. That wasn't always the case.

Randy Scott: From the investor side, this kind of policy whiplash introduces real friction. Companies we back are having to build in more contingency plans—whether that's Plan B (and Plan C) sourcing strategies, keeping extra inventory, or re-evaluating where they build out operations. . We're advising portfolio companies to model different geopolitical and policy scenarios as part of diligence and planning. Sometimes it's the uncertainty much more than the policy that creates the problems. In a high-uncertainty market, buyers are much less likely to try out new vendors and new products, and that has a big-time chilling effect on the innovation economy where we invest.

Neel Lilani: Are we seeing meaningful reshoring of pharmaceutical or medtech manufacturing, or is the U.S. still highly dependent on foreign sources? And in light of the tariffs on China, to what extent are companies shifting, or attempting to shift, to supply sources other than China?

Jeremy Slaga: There is some reshoring, especially for critical products. We've seen federal incentives kick in for domestic production of PPE and some pharmaceuticals. But the reality is, building domestic capacity takes time. We're still dependent on global suppliers for most generics and active pharmaceutical ingredients (APIs). And until the economics shift more meaningfully, we'll likely remain that way.

Randy Scott: I agree. I think the interest in reshoring is there and maybe the tariff strategy accelerates that in some way, but a lot of the things in the medical world aren't instantly re-shored. For pharmaceutical complex chemical manufacturing facilities need to be built. For med tech products it might be slightly easier but many components – like computer chips – can't be sourced domestically and probably won't be for many years no matter what. And the Companies we back simply can't afford to do it on their own. They need contract manufacturers to make those investments.

Neel Lilani: Let's talk geopolitics. How are U.S.-China and U.S.-EU tensions impacting cross-border R&D and investment? Could protectionist policies backfire—driving up healthcare costs?

Jeanine McGuinness: There's no question that escalating U.S.-China tensions have made cross-border collaboration more fraught. New restrictions on data sharing of U.S. persons' sensitive personal data to China, and enhanced CFIUS scrutiny of Chinese investors have changed the calculus. The Trump administration issued a Presidential Memorandum – "America First Investment Policy" – that specifically states the government's intention to further restrict investment in the United Staes from so-called "foreign adversaries," including China. In some cases, U.S. companies are having to walk away from Chinese capital or rethink joint ventures.

Randy Scott: In the short term, yes, it adds cost and complexity. But long term, it could lead to regional silos—where Chinese innovation advances in one lane, and Western innovation in another. That bifurcation doesn't serve global health well.

Jeremy Slaga: I'll just add—when it comes to hospital systems, we're already seeing cost increases tied to this fragmentation. The prevailing reimbursement models in the U.S. healthcare system create a strong incentive for cost control and efficiency. Many reimbursement models, especially DRGs (which are fixed case rates) and increasingly Value Based Care, incentivize cost containment. Whether it's buying U.S.-made gloves or navigating tariffs on imported devices, hospitals operate on relatively tight margins, and unexpected increases in the cost of supplies due to tariffs or shifts in trade dynamics directly erode these margins. So, as you can imagine, we become risk-averse to situations that could increase expenses without a corresponding increase in revenue. These challenges are exponentially magnified for our rural and safety-net hospitals, where the impact is significantly greater. It's not just a policy issue—it's a care equity issue.

Neel Lilani: How are investors evaluating supply chain risk today, especially in diligence? Has that changed compared to five years ago?

Randy Scott: Absolutely. Five years ago, supply chain was an afterthought unless you were investing in a manufacturer. Today, it's central. We need to know that they can always access products and we need to see that they don't just have back-up plans on paper but that they have actually done some of the work – have qualified alternate suppliers and

gamed out how they would react to various supply chain disruptions. If a company can't articulate a resilience strategy, that's a red flag in diligence.

Jeanine McGuinness: We're also advising more clients on how to structure cross-border operations to reduce risk—whether that's setting up alternative legal entities, securing export licenses, or insulating data flows. It's about legal resilience as much as operational resilience.

Neel Lilani: What about startups—what do these shifts mean for companies seeking capital from international investors or looking to scale globally?

Randy Scott: For high-growth, companies it has probably made the idea of scaling globally actually less attractive. There are just too many variables to consider sometimes. With limited resources and bandwidth, that energy might be better spent maximizing their home market. The same is true for foreign investment. The US has the best developed capital markets anyway, so the headache of taking foreign investment might not be worth it anymore.

Jeanine McGuinness: We often help startups navigate this. If you're taking capital from overseas, you have to think several steps ahead. Will this investor trigger a CFIUS filing? Will it limit your ability to later contract with government agencies? These are legal considerations, but they impact valuation and exit.

Neel Lilani: What should companies and governments be doing now to build redundancy and protect vulnerable patients from future disruptions?

Jeremy Slaga: We need more regional manufacturing hubs—not just in the U.S., but across allied countries. That way we're not over reliant on any one region. And we need public-private partnerships that subsidize redundancy for critical goods. It may not be profitable, but it's necessary.

Randy Scott: Investors have a role too. We need to back companies that are thinking long-term about supply-chain resilience, not just cost efficiency.

Jeanine McGuinness: I'd add that regulation can be a lever. The government can incentivize redundancy through tax credits, grant programs, or procurement preferences.

Neel Lilani: Thank you all for this incredibly rich conversation. These global shifts are complex, but they're reshaping our healthcare system whether we're ready or not. I appreciate the insights each of you brought to the table today.

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