Private Capital's Evolving Playbook for Healthcare and Life Sciences

Private capital is flowing into the sector earlier, targeting younger companies with built-in platform potential.


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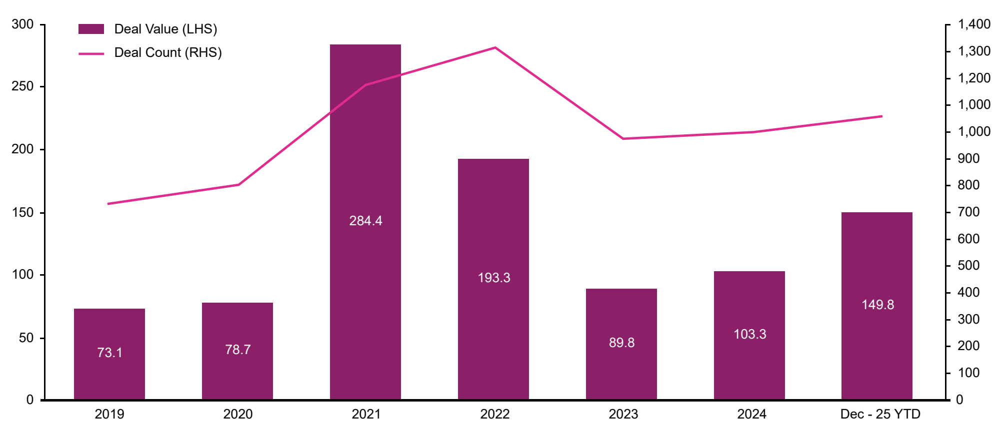
Key Takeaways

- Continuation vehicles have become a popular mechanism for providing liquidity in a tight exit market.
- Investors are looking for real-world, measurable AI use cases, with a focus on drug discovery and optimizing the journey from molecule to market.
- Biotech adjacencies and rare disease therapeutics offer strong pricing power, regulatory incentives, and scalable platforms.

Private capital is poised to remain a driving force in healthcare and life sciences, even as the sector navigates a more complex and competitive environment. After a record-setting surge in 2024 — when global healthcare private equity reached an estimated $103 billion in cumulative deal flow, the third-highest year on record — 2025 reinforced the trend with investors continuing to rewrite the rules amid regulatory disruption, political volatility, and a rapidly evolving biotech landscape.

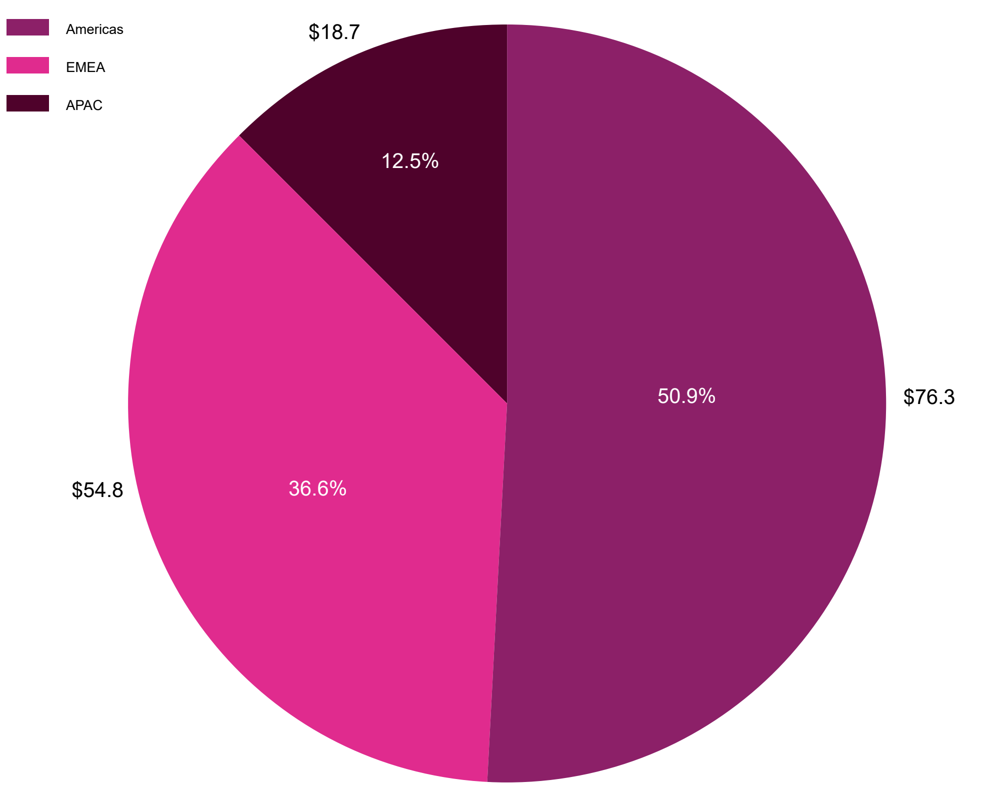
Total Global Healthcare PE Deal Value, 2019-2025, Excluding Add-Ons *(figures in $B)*



Source: Dealogic as of 17 December 2025, Latham & Watkins Tactical Opportunities Analysis

Last year's deal flow was driven by a surge in large transactions, as private capital swooped into the sector for trophy assets. North America was the largest market, accounting for slightly over half of global deal value, while the EMEA region accounted for over 36%. Of all healthcare segments, biopharma led in deal value.

Global Healthcare PE Deal Value by Region, December 2025 YTD *(figures in $B)*



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But capturing deal flow is not easy for private funds, with a raft of investors chasing a relatively small number of attractive assets. Gone are the days of plain vanilla buyouts and late-stage pipeline bets. Today, capital is flowing into healthcare earlier, targeting younger companies with built-in platform potential. As a result, the traditional leveraged buyout model is being challenged, with structures becoming more complex and value creation hinging on more sophisticated levers, AI integration, and strategic resilience over longer development timelines.

Insights from Latham's European Healthcare & Life Sciences Investor Symposium, a series of events held in Paris, London, and Frankfurt in 2025, reveal a sector at the forefront of technological transformation, and a capital community that is rapidly adapting.

Capital Demand Meets Deal Flow Constraints

While secular growth trends continue to underpin healthcare and life sciences investment opportunities, the days of easy wins are behind us. Capital demand remains strong, but deal flow constraints and heightened competition mean investors can afford to be selective. Only the most compelling companies — those with differentiated science, visionary leadership, and scalable platforms — are likely to achieve the valuations they seek. Others may face alternative paths, such as structured financings tied to milestones, liquidation preferences, licensing transactions, or investors deferring commitments until pivotal data or clinical results emerge.

This shift reflects simple supply-and-demand dynamics. Appetite for a resilient sector shows no signs of abating amid macro uncertainty, yet deal flow remains constrained by a persistent gap between buyer and seller valuation expectations. It is a buyer's market: Investors are pushing hard on valuations, waiting for more data, and applying greater scrutiny to projections, ARR, and EBITDA.

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Compounding the challenge are new US regulatory proposals, including the most favored nation drug-pricing regime. Concerns that such policies could disrupt global supply chains and trigger drug shortages — particularly in Europe — have led to stalled exits and withdrawn deals. At the same time, investors are doubling down on European opportunities to diversify geographically in response to US policy shifts.

Against this backdrop, private capital is embracing more intricate deal architecture to bridge valuation gaps and mitigate execution risk. Structured deals tied to sales and regulatory milestones are becoming common, alongside earnouts, enhanced governance provisions, joint development committees, and optionality in exit pathways. Deals in 2025 were defined by meticulous structuring as funds sought innovative tools to meet timelines and deliver returns.

Continuation Vehicles Deliver Solutions

As a mechanism to provide an alternative route to liquidity in a tight exit market, continuation vehicles (CVs) are an increasingly popular feature of the healthcare and life sciences landscape. Preqin data shows that 68 healthcare and life sciences CVs have closed globally in this market since 2022, with a combined value of more than $29 billion. As data from early Q4 shows, 2025 was on track to be the busiest year for healthcare CVs on record.

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Auctions frequently culminate not in full divestments, but in full or partial CV transactions, allowing GPs to continue managing high-performing assets for longer and giving LPs the option of either staying invested or crystallizing returns. More sophisticated transactions allow for asset bundling, selective strip sales, or stapled deals to support future fundraises.

Successful CVs depend on alignment, and it is vital to find common ground and goals in these structures. In sales processes, CVs need to project forward on key issues and liquidity horizons, while affording a satisfactory level of control to the buyer.

Embracing AI Opportunities

AI is becoming a critical value creation lever in healthcare and life sciences as tech-forward firms command premium valuations and reshape investor expectations across the sector. AI is no longer just a talking point, but has rapidly become operational infrastructure. Investors focused on innovation are looking for real-world, measurable AI use cases, with a focus on drug discovery and optimizing the journey from molecule to market.

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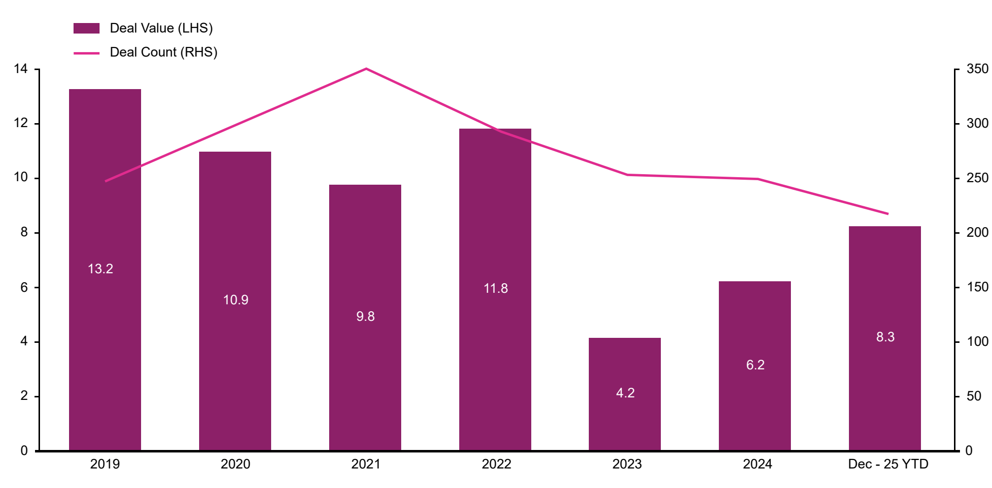
From patient recruitment algorithms that slash trial timelines to deep-learning diagnostics that boost clinical accuracy and automated regulatory submissions, AI's value lies in enabling both speed and precision.

The winners in this space will be companies that are able to embed AI into their operating systems, leveraging data from discovery to delivery.

Biotech Adjacencies and Rare Disease Therapeutics

Investors seeking growth opportunities are increasingly focusing on biotech adjacencies and rare disease therapeutics. Biotech adjacencies — such as pharma supply-chain services, specialized delivery components like GLP-1 autoinjectors, and biologics fill-finish technologies — offer strong pricing power and differentiated exposure to innovation cycles, while avoiding the binary risks of new molecule development.

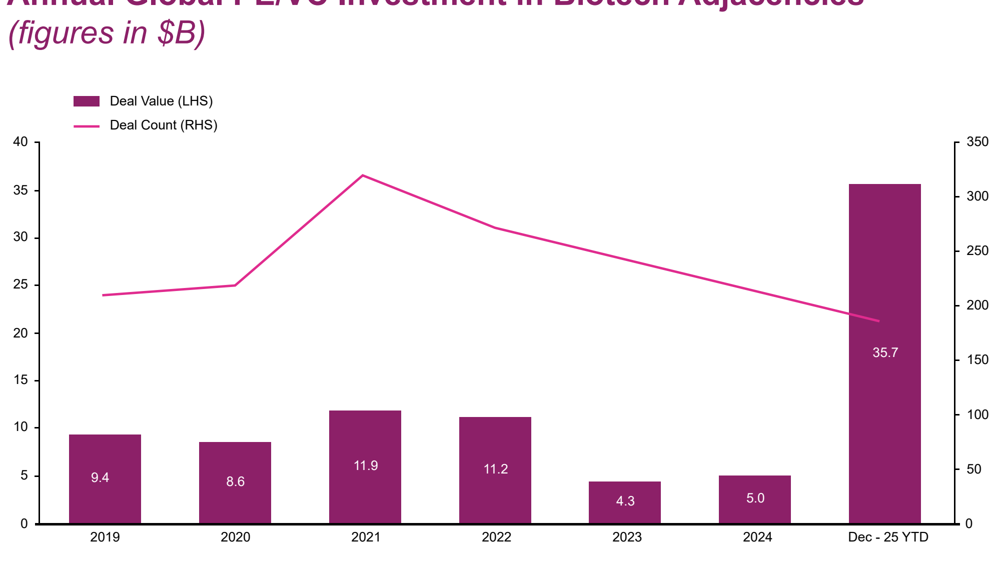
Annual Global PE/VC Investment in Rare Disease Therapeutics *(figures in $B)*



Source: PitchBook as of 17 December 2025, Latham & Watkins Tactical Opportunities Analysis

At the same time, rare disease therapeutics continue to attract significant interest due to lean, innovation-driven models supported by government incentives and regulatory accelerants like orphan drug exclusivity. Fast-track approvals and premium pricing have fueled private capital appetite, while pharma companies welcome external funding to offset high R&D costs for treatments targeting small patient populations.

Annual Global PE/VC Investment in Biotech Adjacencies* *(figures in $B)*



Source: PitchBook as of 17 December 2025, Latham & Watkins Tactical Opportunities Analysis

*Biotech adjacencies include pharma supply chain, pharma storage, pharma distribution, and pharma delivery

Notably, in December 2025, the European Commission, Parliament, and Council agreed on a landmark overhaul of EU pharmaceutical legislation, granting orphan medicines nine years of market exclusivity — with two additional years for addressing unmet medical needs — and introducing a transferable exclusivity voucher for antimicrobials, potentially adding another year of market protection.

For private equity investors, these dynamics translate into highly defensible revenue streams, regulatory-driven barriers to entry, and scalable platforms that combine predictable cash flows with exposure to long-term innovation trends, an attractive combination in an increasingly competitive healthcare investment landscape.

Platform Thinking and Scalability Premiums

Today's growth-focused investors are looking to target opportunities around scalable infrastructure, repeatable processes, and systems capable of supporting multiple revenue streams. Targets that combine scientific excellence with operational sophistication, underpinned by emerging technologies deployed across the entire value chain, are in high demand. Such attributes not only mitigate risk, but drive valuation multiples.

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In short, the healthcare and life sciences investment ecosystem is entering a period of newly calibrated risk, with smarter capital and global rebalancing driving deal dynamics. Private capital is moving earlier, thinking longer, and structuring smarter. Amid a tighter exit market and macropolitical uncertainty, investors are leaning on CVs, meticulous structuring, and data-driven diligence to maintain momentum.

From rare disease therapeutics and biotech-adjacent services to AI-native platforms and European resurgence, the sector offers plenty of opportunity for those agile enough to adapt.

For more developments in this sector, see our Healthcare & Life Sciences Market Update — January 2026.