Proof over promise:

Disciplined transformation in an AI-enabled, value-based market

2026 Healthcare and Life Sciences Investment Outlook

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Contents

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Executive summary

Welcome to the KPMG 2026 Healthcare and Life Sciences Investment Outlook. This in-depth examination of the healthcare and life sciences (HCLS) deal market explores how the major developments of 2025 have prepared the way for the year ahead. In this paper, we analyze how eight subsectors fared during another year of industry challenges and global instability, and how deal activity and market drivers could shape the 2026 investment landscape.

This report's insights are based on extensive global research into the deal and market environments, as well as our annual survey of corporate and private equity (PE) dealmakers across eight subsectors. Crucial to creating this report is the extensive knowledge and experience of our HCLS leaders, who work with our clients on their most pressing deals, strategy, and transformations worldwide.

Uncertainty on many fronts challenged HCLS deal markets in 2025, holding back some potential transactions while spurring others. Interest rate cuts by the US Federal Reserve that began in 2024 were paused through much of 2025 before being restarted late in the year. Company leaders had to make sense of wide-ranging government policy alterations, including a shifting array of new tariffs, passage of a major tax bill, and changes in leadership and direction at federal agencies. Pressure to reduce drug prices and bring research and manufacturing back to the US reverberated through life sciences subsectors while changes in demand, financial pressures, and reimbursement uncertainties were among the factors complicating operational and dealmaking equations for healthcare.

Responding to these challenges, a few HCLS subsectors showed an increase in mergers and acquisitions (M&A) in 2025. Amid a push to move care to lower-cost settings, healthcare services was the most active subsector by volume. Dealmaking in healthcare information technology (HCIT) also surged as companies sought digital tools to help manage costs and improve efficiency. Yet overall transaction volume for the year moved lower compared with 2024 levels. Strategic and financial life sciences transactions dropped from 924 to 813, and healthcare deals declined from 846 to 811 (Exhibit 1). (All 2025 deal data is year to date as of December 13, 2025.) Compared with transaction levels earlier in the year, dealmaking fell off during the fourth quarter for both life sciences and healthcare (Exhibit 2). Although strategic investments in most life sciences subsectors moved lower, corporate deals in biopharma increased compared with 2024 (Exhibit 3 and Exhibit 4). Healthcare transactions by strategic investors increased for HCIT and payers, while dropping for hospitals and health systems and healthcare services (Exhibit 5 and Exhibit 6).

In life sciences, biopharma companies, jostled by Trump administration efforts to bring down prices, continued their quest for innovative medicines to replace blockbusters that are losing patent protection. Central to those efforts are not only cell and gene therapies, which were involved in fewer transactions in 2025 than a year earlier, but also GLP-1s for weight loss and diabetes control. Their mushrooming popularity led to a bidding war between major companies and a $10 billion price tag for a clinical-stage biotechnology company. Although deal volume in biopharma services declined, companies in that subsector made numerous acquisitions to develop end-to-end service platforms for drug development, expand into new global markets, and meet the rising demand for sophisticated manufacturing and logistics and data-driven commercialization services. Medical device companies continued to reshape their portfolios to emphasize high-growth, high-margin product areas, while much of the M&A in life sciences tools and diagnostics helped position companies for a postgenomic era of increasingly sophisticated diagnostic capabilities.

Across healthcare subsectors, a quickening pace of transformation led to a surge of higher-value deals throughout the year. Hospitals and health systems continued to seek traction in a turbulent marketplace as

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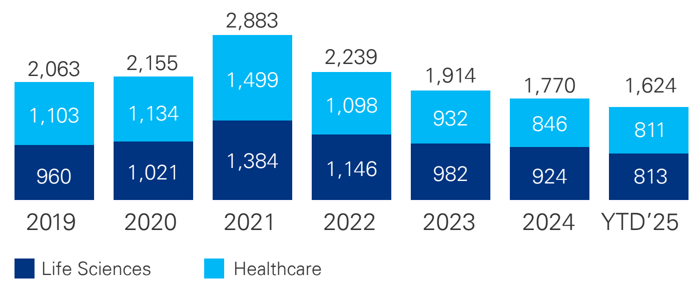
smaller and rural institutions looked for alliances to help them keep operating, and many larger systems divested noncore assets even as they sought greater scale and access to capital. In healthcare services, dealmakers moved to consolidate platforms and address rising patient demand for specialized care in convenient settings. Major technology companies, including Microsoft, Nvidia, and OpenAI, made substantial investments in healthcare digital infrastructure, while payers reviewed their portfolios amid regulatory scrutiny and reimbursement uncertainties.

As the end of the year approached, many HCLS leaders in these subsectors were looking past the uncertainties and challenges of 2025 to an improved 2026 climate for dealmaking that could help them capitalize on the remarkable pace of innovation transforming their industries.

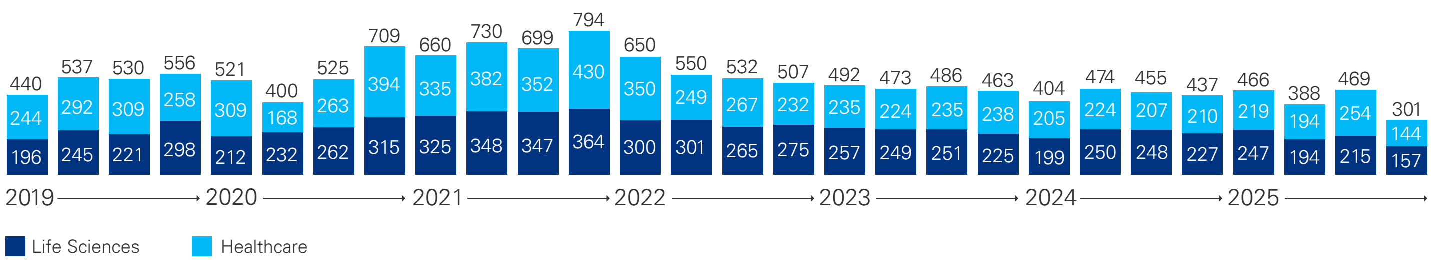
Exhibit 1. Healthcare and life sciences deal volumes drop



Notes: Biopharma data sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2025

Exhibit 2. Healthcare and life sciences deal volume by quarter, 2019-2025



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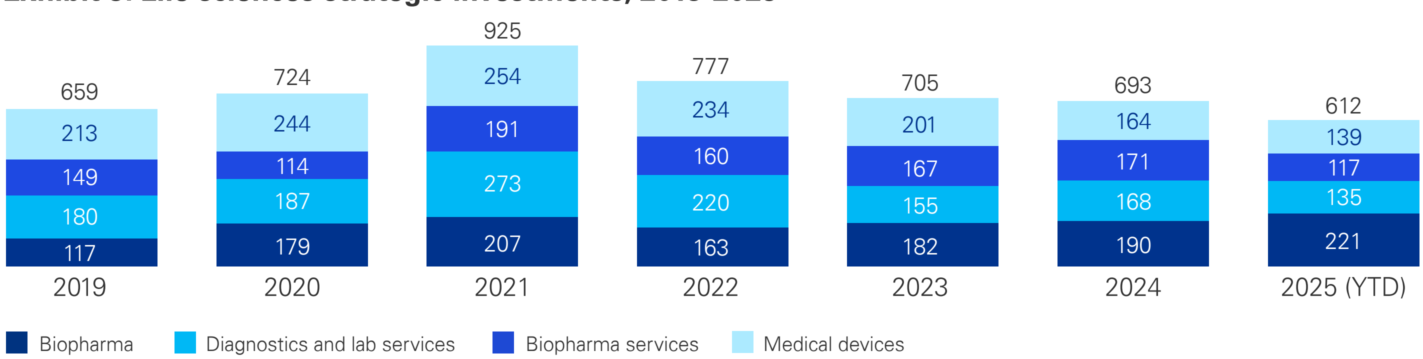
Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2025

Exhibit 3. Life sciences strategic investments, 2019-2025



Notes: Data for Biopharma subsector sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ and Pitchbook; Biopharma subsector excludes deals pertaining to cannabis and hemp as well as distributors/suppliers of drugs; Diagnostics subsector includes companies that are manufacturers of diagnostics equipment, LS tools as well as lab services providers; Companies that are CRO, CMO, or CDMO (support services) for medical devices companies have been excluded from our analysis; Pharma services include CROs, CMOs, CDMOs as well as companies that provide commercialization, consulting, advertising services and other services on contractual basis; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2025

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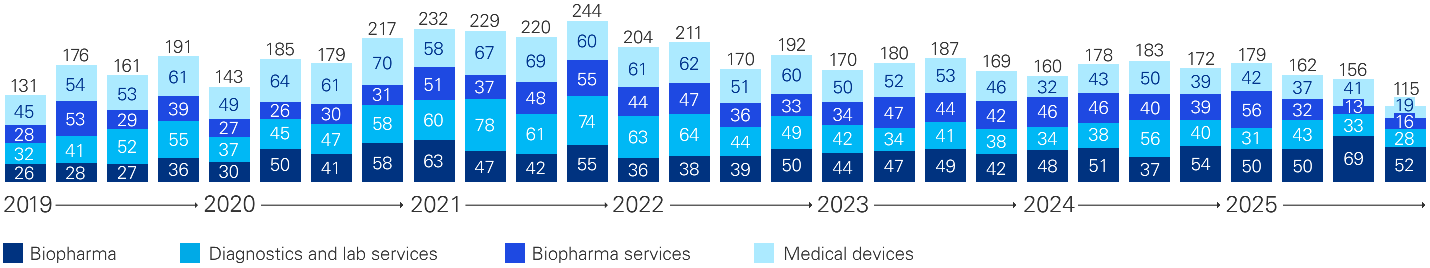
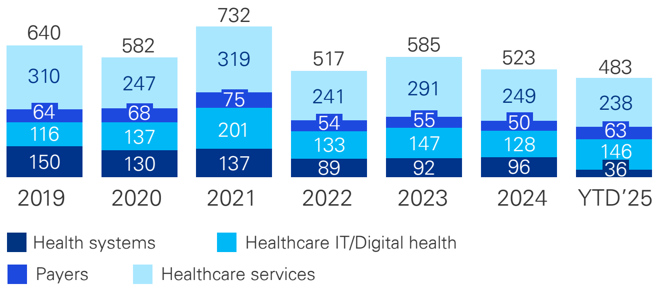
Exhibit 4: Life sciences strategic investment deals by quarter, 2019-2025



Notes: Data for Biopharma subsector sourced from Informa and Pitchbook while all other LS subsectors' data has been sourced from Capital IQ and Pitchbook; Biopharma subsector excludes deals pertaining to cannabis and hemp as well as distributors/suppliers of drugs; Diagnostics subsector includes companies that are manufacturers of diagnostics equipment, LS tools as well as lab services providers; Companies that are CRO, CMO, or CDMO (support services) for medical devices companies have been excluded from our analysis; Pharma services include CROs, CMOs, CDMOs as well as companies that provide commercialization, consulting, advertising services and other services on contractual basis; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; Informa; all accessed in December 2025

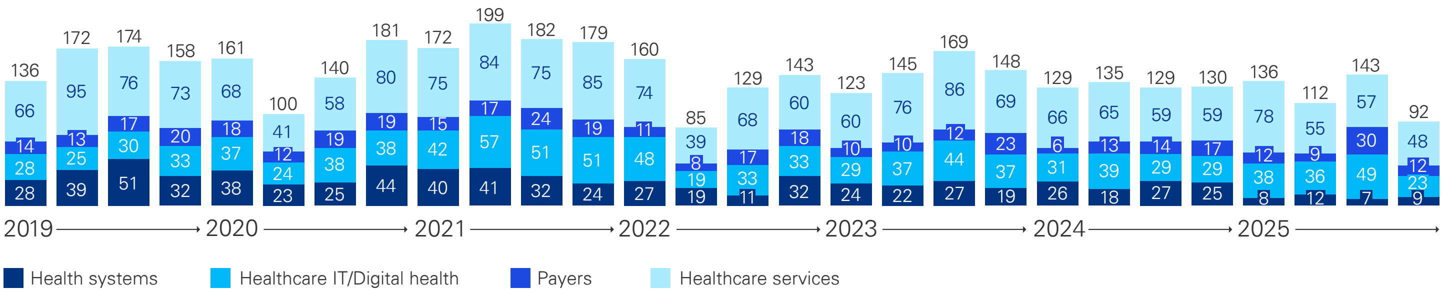
Exhibit 5: Healthcare strategic investment deals, 2019-2025



Notes: Data has been sourced from Capital IQ and Refinitiv; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Includes deals with only US-based targets; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; all accessed in December 2025

Exhibit 6: Healthcare strategic investments by quarter, 2019-2025



Notes: Data has been sourced from Capital IQ and Refinitiv; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Includes deals with only US-based targets; YTD as of December 13, 2025
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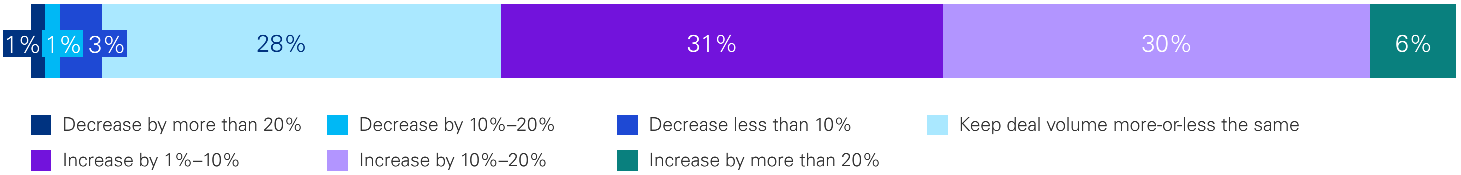
The year ahead

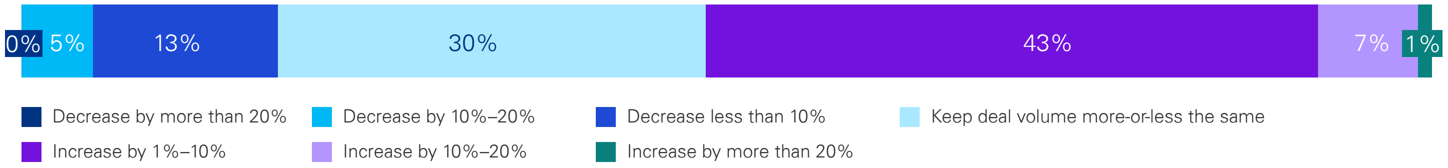
Perhaps encouraged by the likelihood of lower interest rates and a possible increase in clarity about government expectations and policies, most respondents to our annual survey said they believe the volume of M&A will increase in 2026. Sixty-seven percent said they expected more deals in the year ahead than in 2025, with 36 percent predicting deal volume would grow by at least 10 percent. Only 5 percent forecast fewer transactions. But respondents were almost evenly divided about whether buyers will need to pay more for target companies in 2026. Just 51 percent predicted an increase in valuations, while 30 percent expected valuations to remain flat, and 18 percent forecast a decline (Exhibit 7).

Exhibit 7: Industry leaders expect higher deal volumes amid a moderate increase in valuations

Q: What magnitude does your firm plan to increase or decrease M&A deal activity for 2026 compared to 2025, as measured by number of transactions?



Q: To what extent do you believe valuations in your industry will change from 2025 to 2026?



Note(s): Percentages may not add to 100 due to rounding; Options changed across years but the question remained same.
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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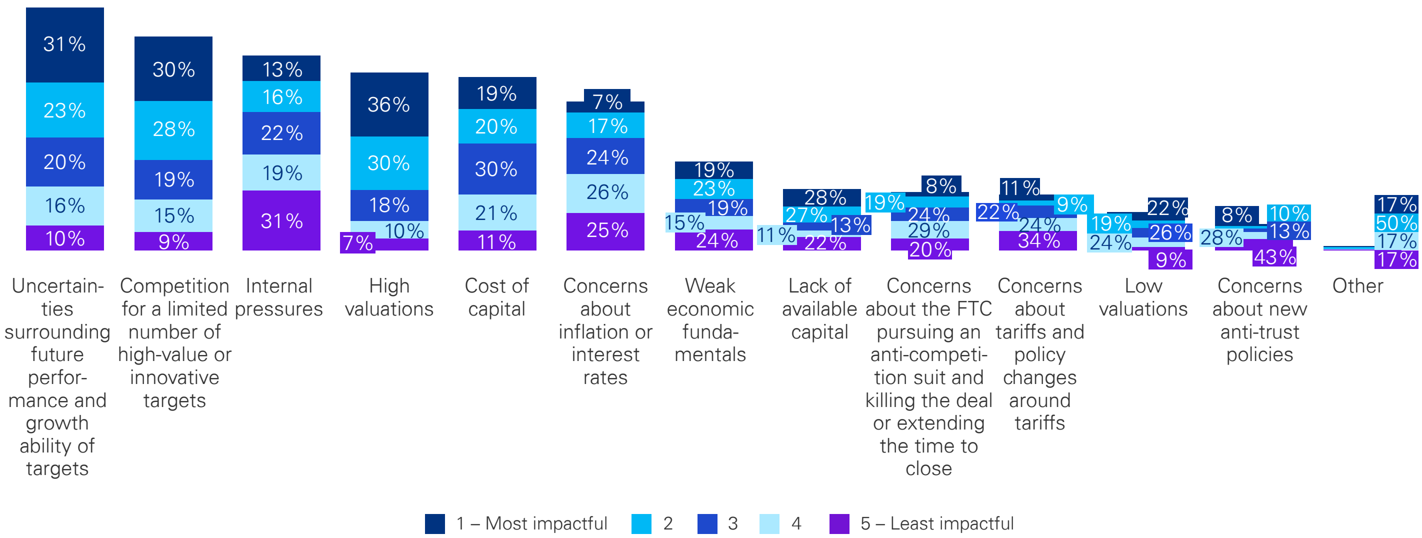
What are the most likely headwinds for dealmakers in 2026? One of our survey respondents' most frequently cited concerns was a perennial one, about the future performance and growth prospects of target companies. Thirty-one percent said that was the top factor that could hinder M&A in the year ahead. Other issues, including the need to compete for a limited number of high-value, innovative assets as well as high valuations, were also on the minds of many respondents. Internal pressures and the cost of capital were considered somewhat less of a concern (Exhibit 8). For PE, the pressure to return capital is an issue. With the outlook for potentially transformative dealmaking in 2026 still subject to many factors, controllable or not, companies will continue to depend on careful diligence and preparation even as they feel increased pressure to find and close impactful transactions. In the months ahead, we will continue to uncover the trends driving M&A across HCLS and bring you updates on these evolving industries.

Exhibit 8: Headwinds that could impact deal activity in 2026

Q: What factors will impact your firm's M&A deal activity plans for 2026, as measured by number of transactions?



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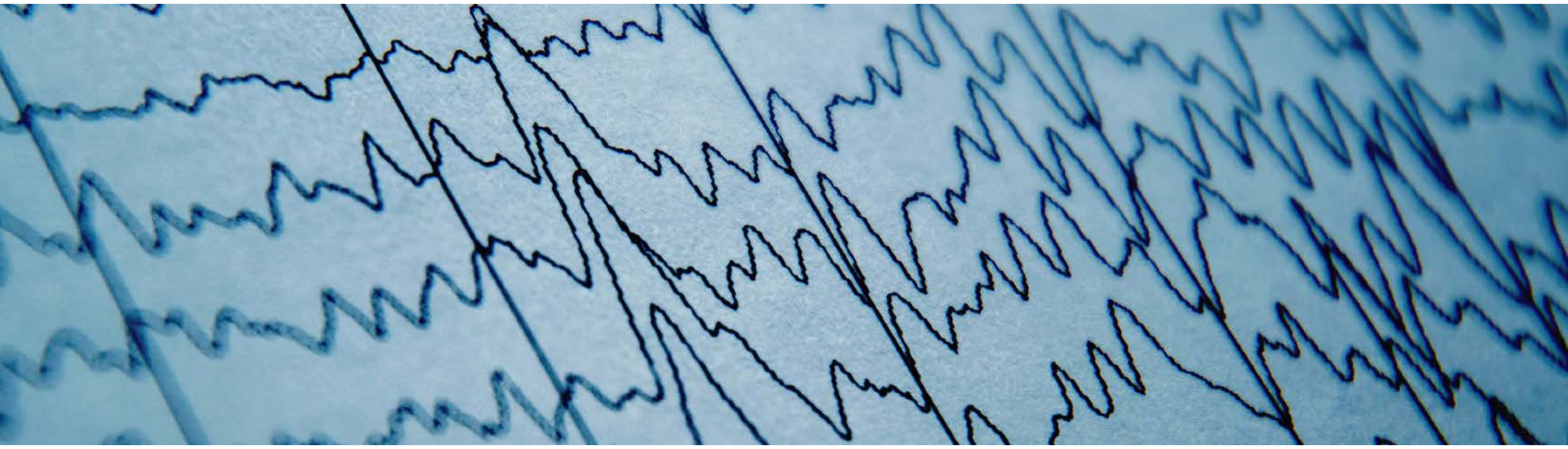

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Subsector analyses

Subsector overview highlights

Life sciences

Biopharma

Bolstered by almost $1.4 trillion in cash and debt capacity, biopharma companies in 2025 continued their quest for a new generation of blockbuster medications. Although no megamergers took place, there were several acquisitions in the $10 billion to $15 billion range, as companies bought specialists in central nervous system (CNS) therapies, oncology, and other high-impact areas and sought footholds in the surging market for GLP-1 weight loss and diabetes treatments. Noting a decline in venture capital support for biotech startups, venture arms of some major pharma companies provided dozens of rounds of funding. Companies also increasingly looked to Chinese biotechs, signing licensing deals for a raft of new drug candidates even as possible tariffs and import restrictions loomed. Biopharma companies had to factor in broad pressures on drug prices and revenues, ranging from negotiated discounts under the Inflation Reduction Act to the threat of most-favored nation pricing, and several companies struck deals with the Trump administration that included promises to reduce prices, reshore manufacturing, and establish direct-to-consumer sales. (12)

Life sciences tools and diagnostics

Although overall deal volume lagged in 2025, companies in this subsector made several strategic transactions to position themselves for a technology-driven future that extends beyond traditional lab testing. Specialized capabilities in genetic testing for a broad range of diseases, FDA-approved blood tests for colorectal cancer and Alzheimer's disease, digital pathology, and AI-enabled clinical decision support systems (CDSS) designed to help clinicians make sense of data about individual patients and possible treatments all have been in demand. Advances in proteomics, multiomics, single-cell analysis, and spatial biology also continue to fuel deal activity. There was also revived interest by PE, with financial investors leading two of the signature transactions in the subsector. (19)

Medical devices

Several significant acquisitions and divestitures by industry leaders characterized dealmaking in 2025 as device companies sought to build portfolios concentrated in high-growth, high-margin areas such as cardiovascular procedures, ophthalmology, and oncology. With more than 100 new FDA-approved applications for AI-enabled radiology, that market attracted broad interest, and in the subsector's highest-value deal, PE investors Blackstone and TPG took mammography specialist Hologic private in a deal worth more than $18.3 billion. The market for robotic surgery has become more competitive, with several companies making moves to broaden applications and bolster their portfolios. (25)

Biopharma services

After rising in 2024, M&A in biopharma services dropped sharply in 2025. Yet both strategic and financial buyers were active across several areas as pharma companies' broad outsourcing of clinical trials, drug development, manufacturing, and commercialization to biopharma services companies continued. In research, the focus has been on specialized CROs, site management, and advanced technology, and several companies have built end-to-end technology platforms for clinical trials. CDMO transactions largely centered on high-value specialized manufacturing capabilities, geographic expansion, and the push to bring pharmaceutical production to the US. Cold-chain logistics capabilities, data-driven commercialization services, and real-world data platforms were also key areas. (31)

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Subsector overview highlights

Healthcare

Hospitals and health systems

Hospitals and health systems faced mounting economic, structural, and policy pressures in 2025. Those dynamics made M&A increasingly essential to the growth of larger systems and the survival of smaller and rural institutions. Deal activity declined sharply, with few megadeals, as hospitals pursued bolt-on acquisitions and partnerships to stabilize finances, expand service lines, and strengthen value-based care capabilities. Regulatory uncertainty, reimbursement risks, and labor shortages drove defensive consolidations, while larger systems sought outpatient and ambulatory assets to optimize cost structures. Digital transformation is increasingly critical as providers look to improve efficiency. In 2026, we expect strategic deals to focus on scale, service rationalization, and technology integration as providers navigate persistent margin and compliance challenges. (43)

Healthcare services

While deal volume was down slightly from last year in healthcare services, the subsector saw the most deals in the healthcare space. Activity was driven by larger acquisitions across physician organizations, post-acute care, and ancillary settings such as ambulatory surgery and urgent care centers as patients, payers, and the government sought to move services toward lower-cost sites of care. Investors favored scalable platforms with strong clinical integration, technology, and regional density, while behavioral health, fertility practices, and infusion providers attracted increased PE interest. Demographic trends, cost pressures, and patient preferences for outpatient care accelerated portfolio rationalization and specialty expansion. Despite reimbursement and regulatory risks, demand for lower-cost, tech-enabled models positions healthcare services for continued consolidation in 2026. (49)

Healthcare payers

Deal activity in this subsector remained steady as payers pursued strategic recalibration amid rising medical costs, utilization spikes, and reimbursement uncertainty. Regulatory scrutiny and margin pressures drove portfolio optimization, divestitures, and selective acquisitions aiming to improve analytics, value-based care enablement, and provider integration. Megadeals were scarce; alliances and partnerships dominated as payers sought cost control and risk management capabilities. AI adoption accelerated in back-office operations but sparked regulatory and legal challenges around claim denials. Looking ahead, we expect success to hinge on disciplined cost management, targeted investments in digital and clinical capabilities, and strategic partnerships to build more integrated, scalable platforms. (55)

Healthcare IT

Dealmaking in this subsector rose in 2025, reaching four-year highs in volume and value as providers, payers, and investors sought digital tools to manage costs, improve efficiency, and help hard-to-find staff work smarter. AI and GenAI adoption accelerated, driving innovations in clinical documentation, diagnostics, revenue cycle management, and patient engagement. Private equity investors favored high-growth platforms in behavioral health, home-based care, and revenue cycle management. Strategic buyers pursued consolidation and partnerships amid high valuations and regulatory complexity. We expect demand for HCIT to remain strong as healthcare organizations across the spectrum prioritize interoperability, automation, and value-based care capabilities to navigate demographic shifts and margin pressures. (62)

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Life sciences

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Life sciences: Sharpening focus during a turbulent period

Asked about their outlook for life sciences dealmaking in the year ahead, respondents to our 2025 HCLS Investment Survey were generally optimistic. Overall, 67 percent of respondents expected an increase in transactions from 2025 levels, and 36 percent said they believed deal volume would rise by at least 10 percent. Yet those expectations are less sanguine than they were a year ago, when 79 percent of respondents anticipated a rise in M&A, and 45 percent predicted that transactions would increase by 10 percent or more.

That change in sentiment may reflect the realities many companies encountered during a turbulent 2025, when hopes for a rebound in dealmaking across life sciences mostly failed to result in larger numbers of transactions. Federal efforts to reduce drug prices, changes in the leadership and priorities of key US health agencies, and the threat of high tariffs on imports of drugs and other life sciences products all had an impact on companies' planning and operations. Because of that, some may have held back from making acquisitions or forging new partnerships. Macroeconomic conditions also didn't improve sufficiently to fuel a surge of transactions.

Still, the need to stay competitive in rapidly innovating industries drove 2025 M&A in all four life sciences subsectors. Biopharma companies, compelled to rebuild pipelines as top therapies lose patent protection, no longer focused only on early-stage assets, instead making acquisitions of several biotechs with drugs nearing FDA approval or already on the market. Those deals included treatments for respiratory diseases and immunological disorders as well as cancer and rare diseases. Companies also demonstrated a renewed interest in CNS treatments, especially for multiple sclerosis, psychiatric disorders, and Alzheimer's disease. And the intense focus on an expanding universe of GLP-1s, with oral formulations and broader indications, showed no signs of fading.

In life sciences tools and diagnostics, the shift toward highly sophisticated tools and tests continued. Lab services companies expanded their offerings in genetic testing for a wide range of diseases, while many other transactions involved tools for a post-genomic era in which advances in proteomics, multiomics, single-cell analysis, and spatial biology are aiding the search for biomarkers for cancer and other diseases. These advancements are enabling advanced testing that can help subtype tumors, predict treatment effectiveness, and anticipate drug resistance. As in other recent years, many companies cast a wide geographic net for innovation, acquiring non-US companies.

Portfolio shaping was the order of the year for medical device companies, several of which made strategic decisions not only to acquire businesses in high-growth areas but also to exit less attractive markets. Expanding their capabilities in cardiovascular procedures amid rapid

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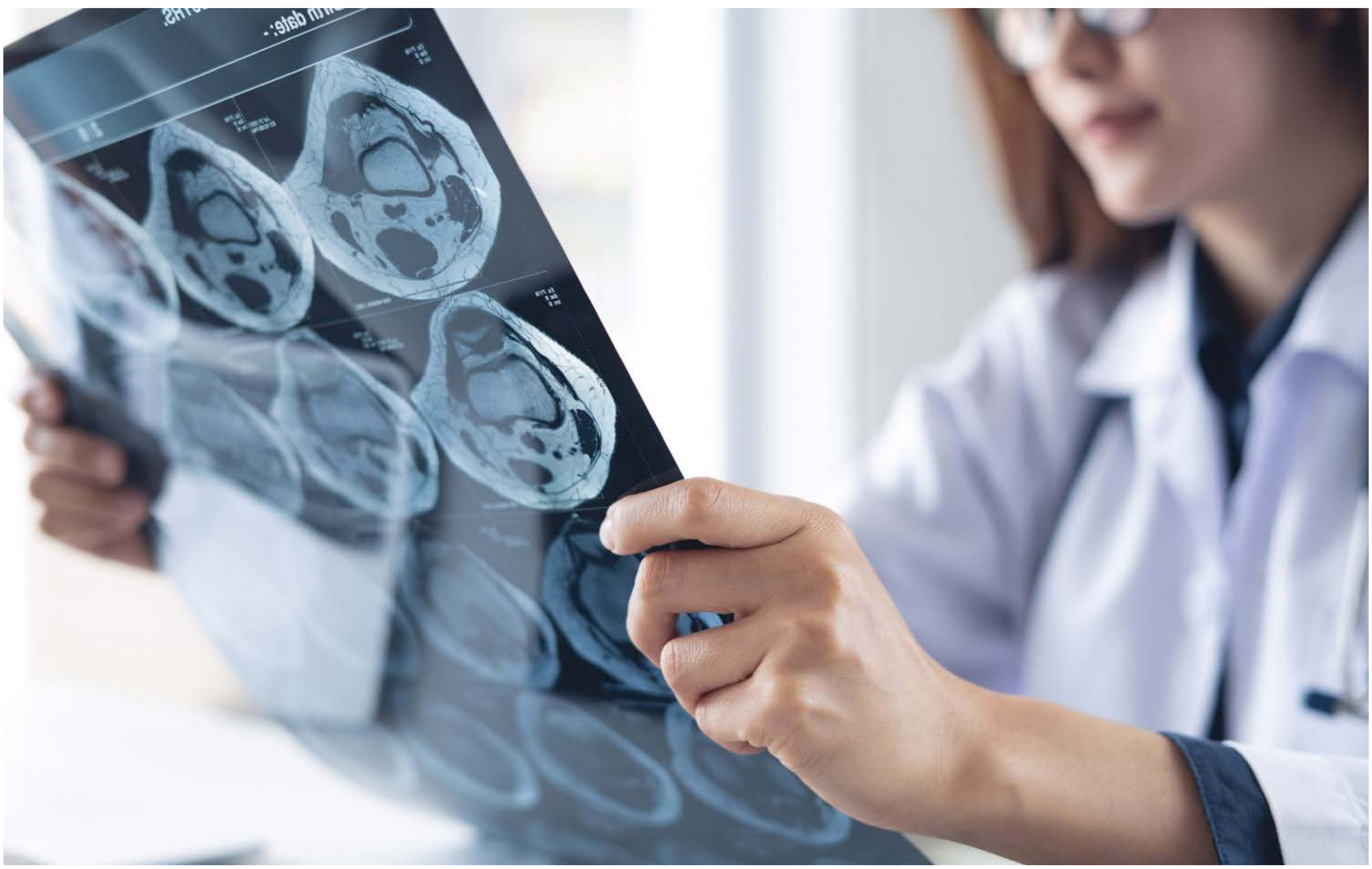
innovation in the category, industry leaders also made acquisitions in AI-enabled radiology and robotic surgery. Yet worries about tariffs—which by one estimate could impact 75 percent of US-marketed medical devices[1]—may have helped depress dealmaking, which fell to its lowest level in several years.

M&A in biopharma services also declined in 2025. Yet companies across this subsector made moves to improve their offerings to pharma companies and biotechs. Advanced technology, especially in data-driven areas, was in demand, as CROs reshaped themselves to aid in the search for advanced therapies, CDMOs focused on adding high-value specialized manufacturing capabilities and geographic expansion, and commercialization services focused on advanced data analytics and digital capabilities.

Improvement in macroeconomic conditions as well as increased clarity about US policy and tariffs could set the stage for a dealmaking rebound in 2026. If headwinds subside across these subsectors, the coming year may yet live up to the expectations of our survey respondents.



[1] "U.S. Tariff Announcements on the Medical Devices Industry—a Global Supply Chain Analysis," Vamstar, April 6, 2025

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Biopharma: Fueled by clear needs

Many challenges converged for biopharma companies in 2025. Government efforts to limit drug prices intensified even as the possibility of high tariffs loomed and new views on public health priorities and the US role on the global stage created additional uncertainties.

Questions about how to refill pipelines ahead of upcoming patent expirations on blockbuster drugs continued to fuel M&A, but the lower interest rates that were supposed to unlock investment in innovative, cash-hungry young biotechs have not materialized to the degree necessary to spike deal activity. In addition, possible restrictions on access to Chinese biotechs for drug development and manufacturing could limit a prominent source of new medicines. The BIOSECURE Act, passed into law in mid-December 2025, could prohibit US pharma companies from working with some Chinese companies on projects related to federal contracts or funding.[2]

Still, much of the industry has significant capital to deploy, even if most of the year's deals were relatively modest. Johnson & Johnson's January purchase of central nervous system (CNS) specialist Intra-Cellular Therapies for $14.6 billion[3] was the largest. Merck also made significant acquisitions, adding Verona Pharma, which specializes in respiratory disease treatments, for $10 billion,[4] and Cidara Therapeutics, a biotech developing drug-Fc conjugate therapies, for $9.2 billion.[5] In addition, financial investors increased their participation. In July, Bain Capital joined Bristol Myers Squibb in creating a new, independent company focused on developing therapies for autoimmune diseases.[6] Also in July, KKR acquired a majority stake in HealthCare Royalty Partners, a leading biopharma royalty acquisition company.[7]

The resumption of US Federal Reserve interest rate cuts late in the year could serve as a catalyst for stepped-up dealmaking in 2026, as could the runaway popularity of GLP-1 drugs for diabetes and weight loss. With major companies jockeying for a prominent place in that market, a late-2025 bidding war drove up the value of Metsera, a weight-loss startup with several promising products that Pfizer agreed to acquire for $10 billion.[8] That deal underscored the motivation of companies looking to position themselves for a challenging future in which industry leaders may have to compete for a smaller universe of attractive targets.

[2] "BIOSECURE Act set for Trump's signature after Congress approval," Pharmaceutical Technology, December 18, 2025

[3] "Johnson & Johnson Strengthens Neuroscience Leadership with Acquisition of Intra-Cellular Therapies, Inc.," press release, January 13, 2025

[4] "Merck to Acquire Verona Pharma, Expanding its Portfolio to Include Ohtuvayre® (ensifentrine), a First-In-Class COPD Maintenance Treatment for Adults and Expected to Drive Growth into the Next Decade," press release, July 9, 2025

[5] "Merck to Acquire Cidara Therapeutics, Inc., Diversifying Its Portfolio to Include Late-Phase Antiviral Agent," press release, November 14, 2025

[6] "Bristol Myers Squibb and Bain Capital Create New Company Dedicated to Developing Innovative Immunology Therapies that Address the Unmet Medical Needs of Patients," press release, July 28, 2025

[7] "KKR Announces Strategic Acquisition of HealthCare Royalty Partners, Expanding the Firm's Health Care Franchise and Enhancing its Life Sciences Strategy," press release, July 30, 2025

[8] "Pfizer finalizes Metsera buy after contentious bidding war with Novo Nordisk," Fierce Biotech, November 13, 2025

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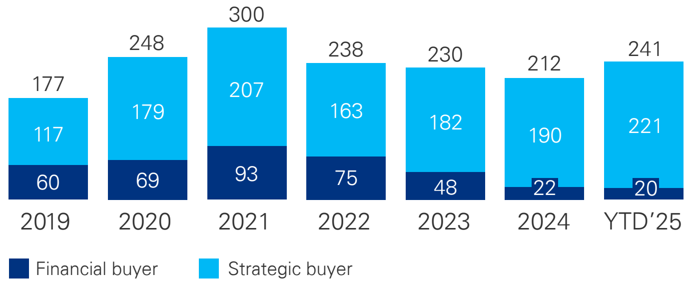
How biopharma fared in 2025

The volume of biopharma deals rose to 241 in 2025 from 212 in 2024 and was the highest since its peak in 2021 (Exhibit 9). With the cost of capital remaining high, financial deals remained scarce, lagging far behind strategic acquisitions.

Exhibit 9: Biopharma deals highest since 2021



Notes: Strategic deals data for biopharma sourced from Informa while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2025

We saw several noteworthy trends in biopharma in 2025

A slowdown in biotech funding. Lagging support for young biotechs could threaten a primary source of the innovative medicines needed to refill biopharma pipelines. Since 2021, in an environment of rising interest rates, venture capital support for early stage biotechs has fallen sharply, both in rounds of funding and total dollars invested. At the same time, IPOs have also dipped. Compared with the peak of IPO activity in 2021, when more than 100 biotechs went public, raising almost $15 billion, there were just 24 biotech IPOs in 2024 and, through December 22, only 9 in 2025.[9]

Helping to fill the venture funding gap, biopharma's own venture funds have been increasingly active. Novo Nordisk parent Novo Holdings' venture fund, for example, participated in 17 rounds of funding for biotech companies in 2024 and another 18 rounds through late 2025—a major increase from 5 rounds in 2022 and 8 in 2023. An Eli Lilly venture fund was also active, with 8 and 13 rounds in the past 2 years, respectively, up from just one round in 2022 and 5 in 2023. Sanofi Ventures went from two venture funding rounds in 2024 to 13 in 2025. In 2022 and 2023, respectively, Sanofi Ventures participated in five and 13 rounds. In 2025, those three companies' venture capital arms ranked among the top six overall sources of biotech venture funding.[10]

Pressure on pricing ratchets higher. Several efforts to limit US government and consumer outlays for prescription drugs fueled ongoing uncertainty for biopharma companies in 2025. Despite some hopes that the Trump administration might scale back or eliminate Inflation Reduction Act (IRA)-mandated Medicare drug-price negotiation, IRA rules remain in place. Negotiated prices for the first 10 drugs under the IRA take effect in 2026, and an additional 15 drugs have been selected for 2027.[11] In addition, the administration has threatened to impose steep tariffs on drug imports,[12] and two White House executive orders have called for curbing drug prices.[13]

Responding to this pressure, Pfizer and AstraZeneca forged agreements with the government that would, among other provisions, discount US prices of some drugs, offer parity between US and "peer nation" prices of new drugs, and increase investment in US production facilities. Then, in November, the White House and

[9] "Biotech IPOs are the industry's lifeblood. Track how they're performing here," Biopharma Dive, October 21, 2025

[10] "Corporate venture firms stepped in for drug startups during biotech funding pullback," Biopharma Dive, October 31, 2025

[11] "FAQs about the Inflation Reduction Act's Medicare Drug Price Negotiation Program," KFF, January 23, 2025

[12] "Trump delaying triple-digit pharma tariffs to negotiate drug price deals," Politico, October 1, 2025

[13] "Under pressure: The Trump administration's drug pricing executive orders," Mintz, September 15, 2025

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GLP-1 makers Eli Lilly and Novo Nordisk reached an agreement that will establish sharply lower prices for the widely prescribed medications in return for Medicaid and Medicare coverage of GLP-1s prescribed for weight loss. (Medicare already covers the drugs for patients with diabetes.)[14]

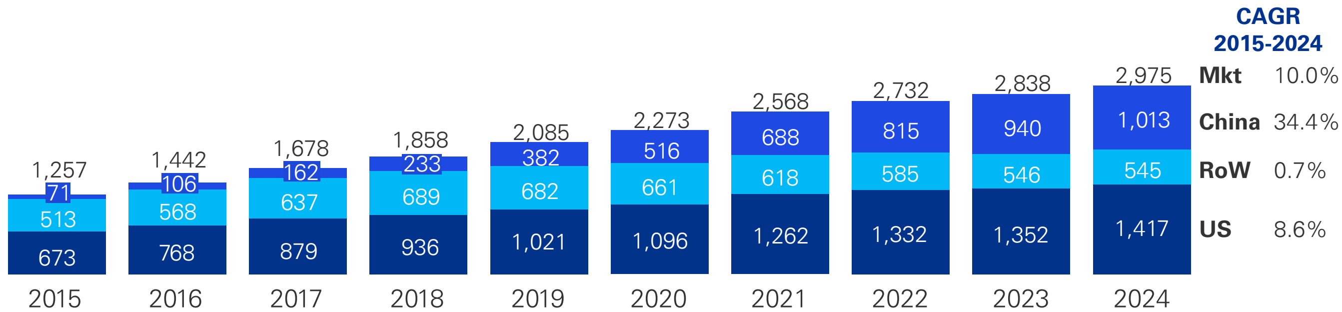
The pact with Eli Lilly and Novo Nordisk also mandates discounted, direct-to-consumer (DTC) sales of the obesity drugs, and multiple other companies have said they would begin DTC sales of other medications.[15] A new website, Trump Rx, will be launched in 2026 to help patients find the best DTC prices for medications.[16] A DTC model may offer pharma manufacturers some benefits, providing information on patient behavior and helping companies improve engagement with patients and strengthen brand loyalty.[17] Although DTC can't be used for all drugs, biopharma is beginning to realize that for the right products, DTC can eliminate middlemen and provide access to a broader range of patients.

Increasing connections to Chinese biotechs. The search for innovative new medicines has led many biopharma companies to look to China, where strong government support has fostered innovation. In 2025, one-third of the money spent on biopharma licensing deals through mid-November involved Chinese drug candidates. Among those 49 agreements, 33 involved preclinical or phase 1 assets, with a primary focus on oncology, immunology, and metabolic disease.[18] In one major deal that could be worth as much as $12 billion, GSK contracted with China's Jiangsu Hengrui Pharmaceuticals to develop a dozen candidate drugs across several therapeutic areas.[19] It should be noted that this increased interest in Chinese biotechs comes amid ongoing US/China trade tensions and concerns about China's lack of intellectual property safeguards. And in November, even as lawmakers were considering the passage of the now-passed BIOSECURE Act, a report from the US-China Economic and Security Review Commission raised alarms about supply chain vulnerabilities, data transparency gaps, and a need for US policy action.[20]

The growth of China's biotech industry has been impressive. For example if we look at one key area, monoclonal antibodies, China now comprises 34 percent of the global pipeline assets versus 48 percent continuing to originate from the US (Exhibit 10). This growth of innovation has translated to the deal landscape.

Exhibit 10: China now constitutes a significant source of assets

Worldwide pre-commercialization monoclonal antibody pipeline[1] across key markets[2] (# of assets) (2015 – 2024)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
% China	6%	7%	10%	13%	18%	23%	27%	30%	33%	34%
% RoW	41%	39%	38%	37%	33%	29%	24%	21%	19%	18%
% US	54%	53%	52%	50%	49%	48%	49%	49%	48%	48%

Note(s): 1. Includes registered, pre-registration, Phase III, Phase II, Phase I, and Preclinical assets. 2. Geography determined by Pharmaprojects' "Drug Country" (countries a drug is being developed in) filter. Percentages may not add to 100% due to rounding.

Source(s): KPMG analysis; Citeline - Pharmaprojects

14 "Trump announces deal with Lilly, Novo to expand access to weight loss drugs, cut prices," Stat+, November 6, 2025

15 "Pharma companies announce direct-to-consumer sales and price cuts in US," Reuters, November 7, 2025

16 "President announces TrumpRx website for drugs, and pricing deal with Pfizer," NPR, September 30, 2025

17 "'Pharm-to-Table': The Impact of Direct-to-Consumer Pharmaceutical Sales on Patient Access, Market Dynamics and Investor Strategy," Debevoise & Plimpton, September 29, 2025

18 "Drugs from China are reshaping biotech. Track the licensing deals here," Biopharma Dive, December 9, 2025

19 "Hengrui Pharma and GSK enter agreements to develop up to 12 innovative medicines across respiratory, immunology & inflammation and oncology," PR Newswire, July 27, 2025

20 "New Report Cautions That China's Pharma Dominance Poses Growing Risks to US Drug Supply Chain," Pharmaceutical Commerce, November 19, 2025

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Headwinds for cell and gene therapies. After peaking in 2023, when 22 percent of the total deal volume in biopharma involved cell and gene therapies, investment in these advanced treatments declined in 2024 and 2025. Comparing the numbers of corporate and product acquisitions as well as licensing deals, strategic R&D collaborations, and joint ventures involving cell therapy assets during the first half of 2023, 2024, and 2025, there were 31, 32, and 14 deals, respectively. For gene therapy, the dip was even more pronounced, going from 58 deals in the first half of 2023 to 27 during the comparable period in 2024, and just 9 in 2025. Growth in the global pipeline of advanced therapeutics has also slowed.[21]

Several specific issues have been holding back dealmaking for cell and gene therapies. Clinical trial holds and failures for some therapies as well as poor commercial performance of recently launched gene therapies have dampened the interest of companies looking to make acquisitions in this space, and a lack of attractive small biotech targets has also had an impact.

Yet the science continues to advance, and multiple transactions in 2025 demonstrate that biopharma companies still value innovations in cell and gene therapies. In a deal announced in late 2024 and finalized in early 2025, Roche paid $1.5 billion to acquire Poseida Therapeutics, which produces "off the shelf" CAR-T therapies that use cells from healthy donors rather than from the patient being treated, an approach that has the potential to greatly expand access to this treatment.[22] In March, in another cell therapy transaction, AstraZeneca acquired EsoBiotec for up to $1 billion, adding an *in vivo* delivery platform that could also broaden access and sharply reduce treatment time.[23] This acquisition was just one of many in the in vivo space in 2025 as biopharma companies invested significantly in this technology. Others included AbbVie's acquisition of Capstan in June,[24] the August purchase of Interius BioTherapeutics by Kite, a Gilead subsidiary,[25] and Bristol Myers Squibb's October acquisition of Orbital Therapeutics.[26]

In gene therapy, Eli Lilly paid $1.3 billion in July to acquire gene-editing company Verve Therapeutics, which has multiple "one and done" cardiovascular gene therapies now in clinical trials.[27] And in October, it added another gene therapy acquisition, purchasing Adverum, which specializes in ophthalmology treatments including for wet age-related macular degeneration.[28] These transactions are in line with an industry move toward gene therapies that address broad populations rather than rare diseases.

Larger deals for later-stage assets. In 2024, biopharma's M&A focus was largely on deals for early-stage assets. Yet while that emphasis largely continued in 2025, there were exceptions, with several companies moving ahead decisively with big-ticket acquisitions of companies with products already or soon to be generating revenue. One was Sanofi's $9.5 billion purchase in June of Blueprint Medicines and its portfolio of rare immunological disease treatments, which includes an FDA-approved treatment for systemic mastocytosis as well as other early- and late-

[21] KPMG analysis; data from Informa Intelligence

[22] "Roche inks $1.5B Poseida buyout, betting off-the-shelf CAR-Ts will democratize access to cell therapies," Fierce Biotech, November 26, 2024

[23] "AstraZeneca to acquire EsoBiotec to advance cell therapy ambition," press release, March 17, 2025

[24] "AbbVie to Acquire Capstan Therapeutics, Further Strengthening Commitment to Transforming Patient Care in Immunology," press release, June 30, 2025

[25] "Kite to Acquire Interius BioTherapeutics to Advance In Vivo Platform," press release, August 21, 2025

[26] "BMS inks $1.5B in vivo CAR-T buyout to pull Orbital into its sphere of influence," Fierce Biotech, October 10, 2025

[27] "Eli Lilly pays $1B upfront to buy gene editing partner Verve Therapeutics," Fierce Biotech, June 17, 2024

[28] "Eli Lilly buys cash-strapped Adverum for its phase 3-stage eye disease gene therapy," Fierce Biotech, October 24, 2025

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stage therapies.[29] Similarly, Merck's $10 billion acquisition of Verona Pharma in October delivered a first-in-class, FDA-approved treatment for chronic obstructive pulmonary disease.[30] The October agreement by Novartis to buy Avidity Biosciences for $12 billion brought several late-stage assets in a portfolio focused on delivering RNA therapeutics directly to muscle tissue in the treatment of multiple rare neuromuscular diseases. Avidity's early-stage treatments in precision cardiology are to be spun off into a publicly traded company.[31] In a smaller deal also focused on ready-to-market assets, Merck KGaG's $3.4 billion acquisition of SpringWorks Therapeutics in July gave the company two approved treatments for rare tumors.[32] And although the year's largest deal, the J&J acquisition of Intra-Cellular, provides a range of clinical and preclinical CNS treatments, it also includes an FDA-approved therapy for bipolar depression and schizophrenia.[33] In November, the treatment received approval as an adjunct therapy for major depressive disorder, which could spark a major boost in sales.[34]

Rising interest in CNS treatments. Although oncology remains the primary emphasis for M&A in the biopharma subsector, the Johnson & Johnson deal for Intra-Cellular was far from the only 2025 transaction that featured CNS assets. Novartis's purchase of Avidity was another major deal, and Sanofi's $470 million deal for cash-strapped Vigil Neuroscience, which has a phase 2 trial for an Alzheimer's disease therapy about to launch, came at a steep premium. Sanofi offered $8 a share up front when Vigil's stock was trading at $2.31 a share.[35] In another CNS-focused deal, Alkermes bolstered its position in the expanding market for narcolepsy treatments by acquiring Avadel Pharmaceuticals in November for $2.3 billion.[36] Those acquisitions come against the backdrop of a CNS market that was expected to surpass $80 billion in sales in 2025, reaching that milestone for the first time since 2013. Much of that growth is being driven by new treatments for multiple sclerosis, psychiatric disorders, and Alzheimer's disease.[37]

29 "With Opella proceeds burning a hole in its pocket, Sanofi snaps up Blueprint for $9.1B," Fierce Pharma, June 2, 2025
30 "Merck Completes Acquisition of Verona Pharma," press release, October 7, 2024
31 "Novartis agrees to acquire Avidity Biosciences, an innovator in RNA therapeutics, strengthening its late-stage neuroscience pipeline," press release, October 26, 2025
32 "Merck concludes SpringWorks acquisition for $3.4bn," Pharmaceutical Technology, July 2, 2025
33 "Johnson & Johnson Strengthens Neuroscience Leadership with Acquisition of Intra-Cellular Therapies," Global Newswire, January 13, 2025
34 "J&J brain drug acquired in $14.6B buyout cleared for broader use," Biopharma Dive, November 6, 2025
35 "Sanofi inks $470M Vigil buyout, brushing off rivals' failures to join Novartis in Alzheimer's race," Fierce Biotech, May 22, 2025
36 "Avadel Pharmaceuticals Agrees to Alkermes' Revised Acquisition Offer," PharmExec.com, November 19, 2025
37 "CNS market resurgence: a decade-long slump ends with $80bn milestone," Pharmaceutical Technology, April 1, 2025

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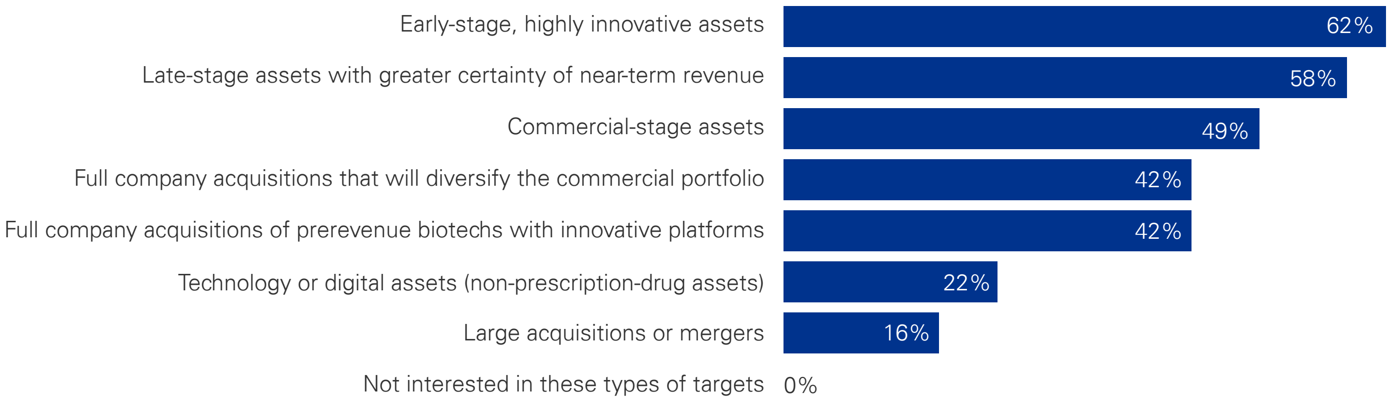
Outlook and investment considerations for 2026

In their quest for innovative therapies that can replace top drugs that are losing patent protection, respondents to our annual survey were almost evenly split between plans to focus in 2026 on early stage, highly innovative assets, which 62 percent planned to target, and late-stage assets that provide a greater certainty of near-term revenue, which 58 percent said they would target. Almost half of respondents said they would focus on commercial-stage assets (Exhibit 11).

Exhibit 11: Both early- and late-stage assets are top biopharma targets

Q: In 2026, what types of targets will your company look to acquire?



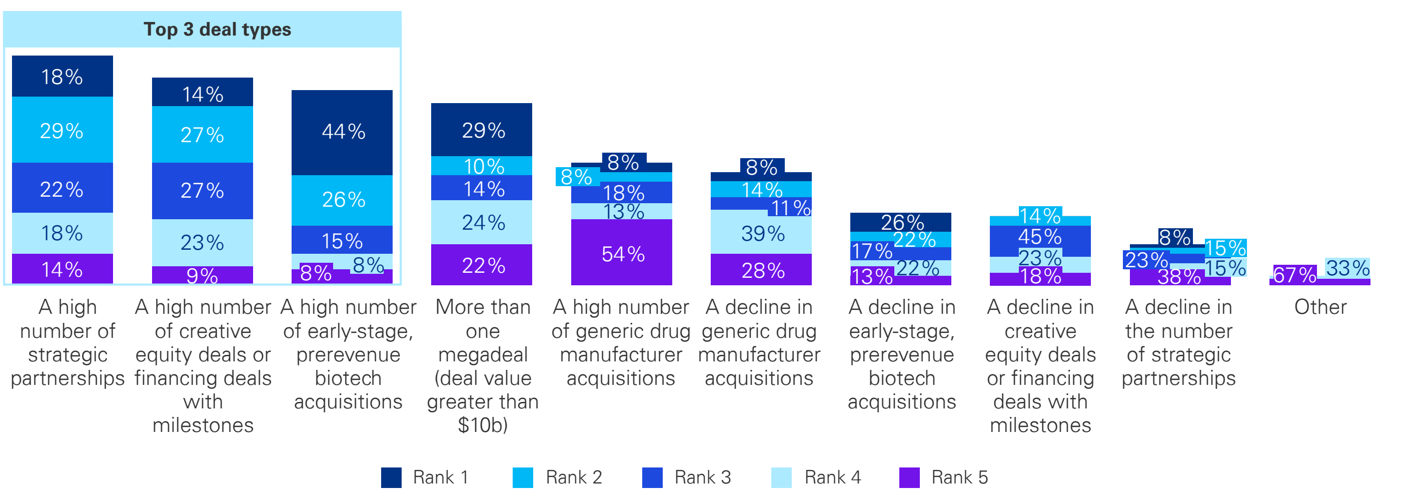
Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained same; "Other" has not been included in the graphical representation due to no response

Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

Asked what types of deals they would focus on in 2026, survey respondents gave the highest rankings to early-stage biotech acquisitions, strategic partnerships, and equity or financing deals with milestones (Exhibit 12).

Exhibit 12: Strategic partnerships and biotech acquisitions will be a main focus

Q: What types of pharmaceutical deals do you expect in 2026? (Rank top 5 in order)



Note(s): Bar totals based on respondents who gave some rank to the given factor; Percentages may not add to 100 due to rounding; Options changed across years but the question remained same

Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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Tailwinds and headwinds

Tailwinds

Increasing urgency to restock pipelines. Facing the expiration of patent exclusivity for almost 200 drugs within the next five years at a projected cost of at least $200 billion, pharma companies are redoubling efforts to develop or acquire the next generation of top-selling medications.[38]

Ample firepower for M&A. When good targets are found, industry leaders should have ample financial resources to make strategic acquisitions. In early 2025, 23 companies had a combined cash and debt capacity of almost $1.4 trillion.[39]

Improving outlook for the cost of capital. The late 2025 resumption of Federal Reserve rate-cutting could spur increased dealmaking in 2026.

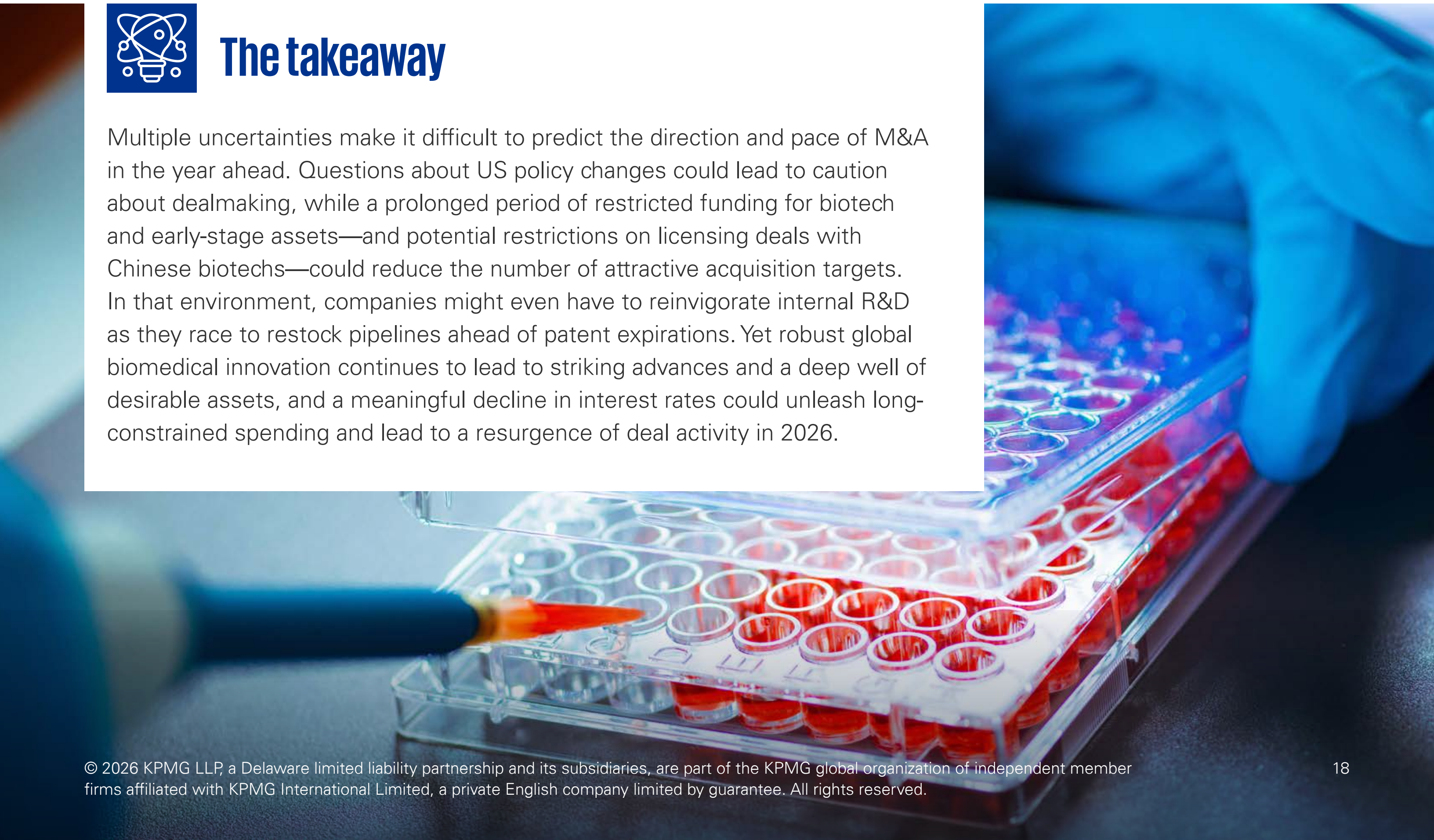
Headwinds

US policy uncertainty. The IRA; MFN pricing; and ongoing changes at the FDA, Centers for Disease Control and Prevention, and the National Institutes of Health have the potential to squeeze biopharma revenue and profits and dramatically challenge the market value of every pharma company. Threats of high tariffs on pharma imports add another wild card.

Potential roadblocks for deals with China. US/Chinese tensions and the passage of the BIOSECURE Act could limit US access to China's biotech assets, which have been a major source of innovation for the industry.

[38] "The $400 Billion Patent Cliff: Big Pharma's Revenue Crisis," The American Bazaar, August 4, 2025

[39] Capital IQ Pro, February and March 2025



The takeaway

Multiple uncertainties make it difficult to predict the direction and pace of M&A in the year ahead. Questions about US policy changes could lead to caution about dealmaking, while a prolonged period of restricted funding for biotech and early-stage assets—and potential restrictions on licensing deals with Chinese biotechs—could reduce the number of attractive acquisition targets. In that environment, companies might even have to reinvigorate internal R&D as they race to restock pipelines ahead of patent expirations. Yet robust global biomedical innovation continues to lead to striking advances and a deep well of desirable assets, and a meaningful decline in interest rates could unleash long-constrained spending and lead to a resurgence of deal activity in 2026.

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Life sciences tools and diagnostics: Persistent themes guide dealmaking

Since 2021, a high-water mark for dealmaking by life sciences tools and diagnostics companies, industry leaders have had to be increasingly cautious and selective.

Against a backdrop of often difficult macroeconomic conditions, expensive financing, and a rapidly shifting landscape of scientific and technological advancements, it became ever more challenging to build the business case for acquisitions and divestitures. A rising tide of post-pandemic bankruptcies only added to the uncertainty.

Yet companies in this subsector have continued to rely on M&A to position themselves for a technology-driven future. Three of the largest recent deals in this subsector—Abbott's acquisition of Exact Sciences for $21 billion,[40] Waters Corporation's $17.5 billion Reverse Morris Trust transaction of BD's biosciences and diagnostics divisions,[41] and Blackstone and TPG taking medical technology company Hologic private in a transaction worth $18.3 billion[42]—suggest that diagnostics companies are willing to take big swings to expand and shape their portfolios. Some companies have looked beyond US borders to find attractive acquisition targets, a trend that continued in 2025. In addition, lab services companies have expanded their offerings into increasingly sophisticated areas, including genetic testing for a broad range of diseases. Most significantly, many companies have embraced a post-genomic era in which advances in proteomics, multiomics, single-cell analysis, and spatial biology continue to fuel deal activity. With the resumption in late 2025 of interest rate cuts that had been paused for almost a year, improved conditions for dealmaking could lead to a higher volume of transactions in 2026.

[40] "Abbott to acquire Exact Sciences for about $21B," Medtech Dive, November 20, 2025

[41] "BD's biosciences, diagnostics units find new home at Waters in $17.5B lab tools deal," Fierce Biotech, July 14, 2025

[42] "Hologic to go private with $18.3B acquisition by Blackstone and TPG," Fierce Biotech, October 22, 2025

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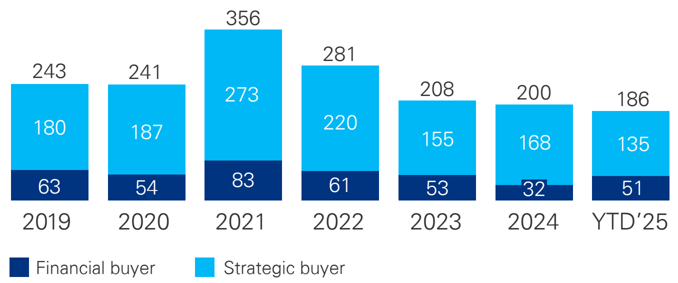
How life sciences tools and diagnostics fared in 2025

Although strategic investors continued to account for most of the deals in this subsector, the volume of M&A by financial investors was significantly higher in 2025 than during the previous year. Overall deal volume was down slightly from 2024 and remained below pre-pandemic levels (Exhibit 13). Continuing a trend seen during the past five years, deal volume for diagnostics was higher than for lab testing and life sciences tools.

Exhibit 13: Life sciences tools and diagnostics deals fall



Notes: Strategic deals data for biopharma sourced from Informa while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2025

We saw several noteworthy trends in life sciences tools and diagnostics in 2025

A continued emphasis on multiomics. The post-genomic era of molecular research continues to achieve new milestones as scientists explore how to analyze multiple biological layers simultaneously to pinpoint irregularities in a patient's genes, RNA transcripts, proteins, and metabolites that can aid diagnosis and treatment. Mass spectrometry, spatial imaging, affinity-based proteomic tools, and other advanced technologies are aiding the search for biomarkers for cancer and other diseases that can help subtype tumors, predict treatment effectiveness, and anticipate drug resistance.

Looking to build their capabilities in these specialized areas, diagnostics companies made several notable acquisitions in 2025. Illustrating the rapid evolution of this market, Standard BioTools, a life sciences tools company that in 2024 had acquired proteomics technology specialist SomaLogic, announced in July that it was selling SomaLogic to Illumina in a transaction worth up to $425 million. The acquisition adds SomaLogic's advanced proteomics technology to Illumina's next-generation sequencing platform, potentially reducing the time and cost of proteomic research.[43]

In July, Quanterix completed its acquisition of spatial biology company Akoya Biosciences, which specializes in detecting biomarkers in human tissue. This move creates a complement to Quanterix's technology for finding blood-borne proteins and a boost for developing new liquid biopsy tests for the early detection of disease in neurology, oncology, and immunology.[44] In November, Qiagen announced that it was acquiring Parse Biosciences. Qiagen believes that Parse's technology, which does molecular analysis of single cells on standard lab equipment, will complement its sample technology and bioinformatic businesses.[45]

[43] "Illumina to acquire SomaLogic, accelerating its proteomics business and advancing the company's multiomics strategy," press release, June 23, 2025

[44] "Quanterix Completes Acquisition of Akoya Biosciences, Creating the First Integrated Platform Capable of Measuring Biomarkers Across the Blood and Tissue Continuum," press release, July 8, 2025

[45] "Qiagen inks $225M single-cell buyout as CEO prepares to step down," Medtech Dive, November 5, 2025

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Consolidation of specialty testing. In one of several moves involving capabilities for advanced testing, Tempus AI completed its purchase of genetics testing company Ambry Genetics in February,[46] expanding Tempus offerings into new categories including pediatrics, rare disease, immunology, reproductive health, and cardiology. In March, Labcorp announced it would acquire cancer testing and related clinical services assets from OPKO Health subsidiary BioReference Health,[47] and in August, Labcorp completed its acquisition of Invitae's specialty testing assets for oncology and rare diseases.[48] Also in August, Quest Diagnostics announced it had acquired renal testing assets from Fresenius Medical Care, expanding Quest's capabilities in the diagnosis of chronic kidney disease, which affects some 14 percent of the US population.[49]

Diagnostics companies have also expanded their offerings into new areas with high potential for growth. In September, Quest Diagnostics announced a collaboration with Guardant Health that would increase access to Guardant's Shield blood test, which was approved by the FDA in July 2024 as a new screening test for colorectal cancer.[50] And the Cologuard noninvasive, at-home screening test for colorectal cancer was one centerpiece of Abbott's acquisition of Exact Sciences; Exact Sciences also makes tests for early detection of several other types of cancer.[51] Labcorp, in October, said it would offer Roche's FDA-cleared blood test to assess early signs of Alzheimer's disease and other causes of cognitive decline in older patients.[52]

Platform building and the consolidation of traditional in vitro diagnostic testing spurs multiple transactions. Several large platform mergers and strategic acquisitions helped companies adapt to a post-pandemic world of technology advancements and changing demand for diagnostic testing. By far the highest-value deal was the Waters Corporation's $17.5 billion Reverse Morris Trust transaction of BD's biosciences and diagnostics divisions, announced in July. The transaction brings together Waters' and BD's complementary size businesses tax-effectively for high-volume testing in liquid chromatography, mass spectroscopy, flow cytometry, and diagnostic solutions, and accelerates Waters Corporation's expansion into bioseparation and other high-growth areas.[53] Completed in July, Nova Biomedical's acquisition by Advanced Instruments, a subsidiary of Patricia Industries, established a global, diversified life science tools platform with a varied portfolio of analytical instruments, reagents, and services.[54] In addition, Tokuyama acquired JSR Corporation's in vitro diagnostics and pharmaceutical materials businesses.[55] Financial investors have shown interest, with the Blackstone/TPG acquisition of Hologic built around Hologic's broad capabilities in women's health diagnostics.[56]

Meeting the demand for clinical decision support. Clinical decision support systems (CDSSs) utilize predictive analytics and other AI tools to analyze data in electronic health records (EHRs), clinical knowledge databases, and other information sources to facilitate informed, personalized decisions about how to diagnose and treat patients. For clinicians who may struggle to keep up with the flood of new research and rapidly evolving treatment guidelines, the systems can improve diagnostic accuracy and bring data-driven, patient-specific insights to bear in selecting optimal treatments while avoiding drug interactions and toxicity risks. A range of EHR companies, AI specialists, and life sciences tools companies are working to find a prominent place in a market for CDSS that is projected to grow from $3.14 billion in 2024 to an estimated $10.74 billion in 2034.[57] In January, AirStrip Technologies announced the acquisition of DECISIO

[46] "Tempus Completes Acquisition of Ambry Genetics," press release, February 3, 2025

[47] "Labcorp Announces Acquisition of Select Assets of BioReference Health's Innovative Oncology and Related Clinical Testing Services Businesses," press release, March 11, 2025

[48] "Labcorp Finalizes Acquisition of Select Assets of Invitae," press release, August 5, 2025

[49] "Quest Diagnostics Completes Acquisition of Clinical Testing Assets from Fresenius Medical Care," press release, August 5, 2025

[50] "Guardant Health and Quest Diagnostics Announce Strategic Collaboration to Broaden Access to Guardant's Shield Blood-based Screening Test in the United States," press release, September 24, 2025

[51] "Abbott to acquire Exact Sciences for about $21B," Medtech Dive, November 20, 2025

[52] "Labcorp signs on to carry Roche's newly FDA-cleared Alzheimer's blood test," Fierce Biotech, October 24, 2025

[53] "BD's biosciences, diagnostics units find new home at Waters in $17.5B lab tools deal," Fierce Biotech, July 14, 2025

[54] "Advanced Instruments' acquisition of Nova Biomedical completed," press release, July 10, 2025

[55] "Tokuyama Corporation completed the acquisition of in vitro diagnostic pharmaceutical business from JSR Corporation," Market Screener, September 30, 2025

[56] "Hologic to go private with $18.3B acquisition by Blackstone and TPG," Fierce Biotech, October 22, 2025

[57] "Clinical Decision Support Systems Market Opportunities and Strategies Report 2025-2034," Research and Markets, July 21, 2025

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Health, a specialist in CDSS; the combined companies provide mobile and web-based applications to enhance patient monitoring and data-driven decision-making.[58] In October, Abridge announced it is deepening its partnership with Wolters Kluwer to embed evidence-based clinical decision support directly into clinician workflows.[59] Moving to establish an end-to-end CDSS for infectious diseases, DoseMe, which makes precision-dosing software, acquired Firstline, a global leader in CDSS. The combination connects therapy selection with personalized dosing.[60] In another transaction designed to make advanced diagnostic capabilities accessible to physicians, precision medicine technology company Tempus acquired Paige, a specialist in AI-powered digital pathology that was spun off from Memorial Sloan Kettering Cancer Center in 2017. Tempus gets almost 7 million digitized pathology slide images and associated clinical and molecular data to support development of its AI model for decision support.[61]

A divergence in newborn screening policy. US newborn screening programs identify some 7,000 infants each year who have treatable disorders, and the acquisition of Fabric Genomics by GeneDx was designed to deepen and broaden the combined company's position in neonatal intensive care testing and newborn screening, including in non-US markets.[62] Yet in April, the Department of Health and Human Services terminated the Advisory Committee on Heritable Disorders in Newborns and Children, a federal panel that assesses scientific evidence and recommends new conditions to be added to the newborn screening panel. This move has raised alarm among scientists and physicians who believe the loss of the committee risks a delay in the adoption of lifesaving screening for newborns and could widen health disparities.[63] At the same time, the UK government announced plans to begin offering whole genome screening for all newborns within 10 years and would use genomics and AI to "revolutionize prevention" and provide faster diagnoses and an "early warning signal for disease."[64]

Bulking up to test for minimal residual disease (MRD). This specialized testing is rapidly becoming a key part of oncology care, providing early detection of disease recurrence and allowing clinicians to make treatment adjustments. Several collaborations and an acquisition announced in 2025 will facilitate increased MRD testing. In January, Neogenomics and Adaptive announced a multi-year commercial collaboration that integrates Neogenomics COMPASS and CHART personalized assessment services with Adaptive's clonoSEQ IVD test to detect MRD in lymphoid cancers.[65] In June, Qiagen announced deals with Tracer Biotechnologies, to develop MRD tests on QIAcuity digital PCR systems for solid cancer tumors,[66] and Foresight Diagnostics, to create a kit-based version of the Foresight CLARITY assay, a ctDNA-based NGS test for certain types of lymphoma. In July, Tempus and Personalis said they would expand and extend their existing MRD collaboration to include colorectal cancer.[67] In December, Natera, the global leader in MRD, announced it had completed the acquisition of Foresight Diagnostics, expanding Natera's position in solid tumor MRD detection, particularly in lymphoma.[68]

58 "AirStrip acquires DECISIO Health to expand clinical monitoring," Hospital Management, January 7, 2025
59 "Abridge, Wolters Kluwer lean into real-time clinical decision support," Becker's Health IT, October 20, 2025
60 "DoseMe Acquires Firstline to Build End-to-End Clinical Decision Support for Health Systems in the Global Fight Against Infectious Disease," press release, November 3, 2025
61 "Tempus inks $81M Paige buyout to support AI model development," Medtech Dive, August 26, 2025
62 "GeneDx Buys Fabric Genomics to Fuel Clinical Expansion," Inside Precision Medicine, April 17, 2025
63 "Critical Juncture for Newborn Screening in the United States," Journal of Obstetric, Gynecologic & Neonatal Nursing, November 1, 2025
64 "UK genetic screening plan welcomed by biotech," Drug Discovery World, June 30, 2025
65 "Adaptive Biotechnologies and NeoGenomics Partner to Expand Access to Personalized Disease Monitoring for Blood Cancer Patients," press release, January 14, 2025
66 "QIAGEN expands portfolio for minimal residual disease (MRD) testing in oncology with new strategic partnerships," press release, June 2, 2025
67 "Personalis Expands Tempus Strategic Collaboration to Bring Ultra-Sensitive Cancer Recurrence Testing to Colorectal Cancer Patients," press release, July 9, 2025
68 "Natera acquires Foresight Diagnostics for up to $450M," MedTech Dive, December 10, 2025

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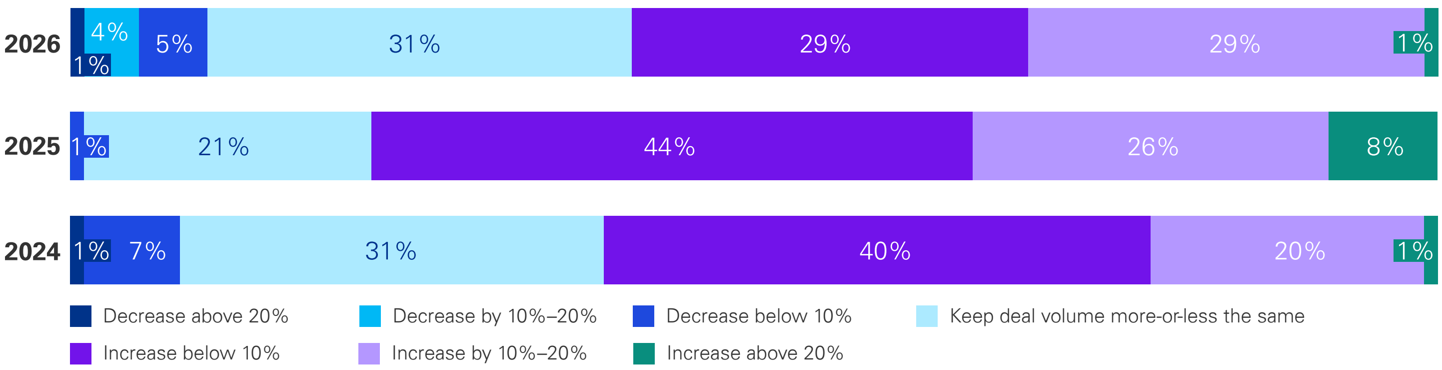
Outlook and investment considerations for 2026

Fifty-nine percent of respondents to our annual survey expect to see a rising number of transactions in the life sciences tools and diagnostics subsector in 2026, and 30 percent predict that deal volume will increase by 10 percent or more. Those percentages fall short of those from last year's survey, when 78 percent of respondents projected an increase in dealmaking—a rise in M&A that failed to materialize (Exhibit 14).

Exhibit 14: Dealmakers project that M&A numbers will increase in 2026

Q: How do you believe overall deal volume for diagnostic manufacturers in 2026 will compare to 2025?

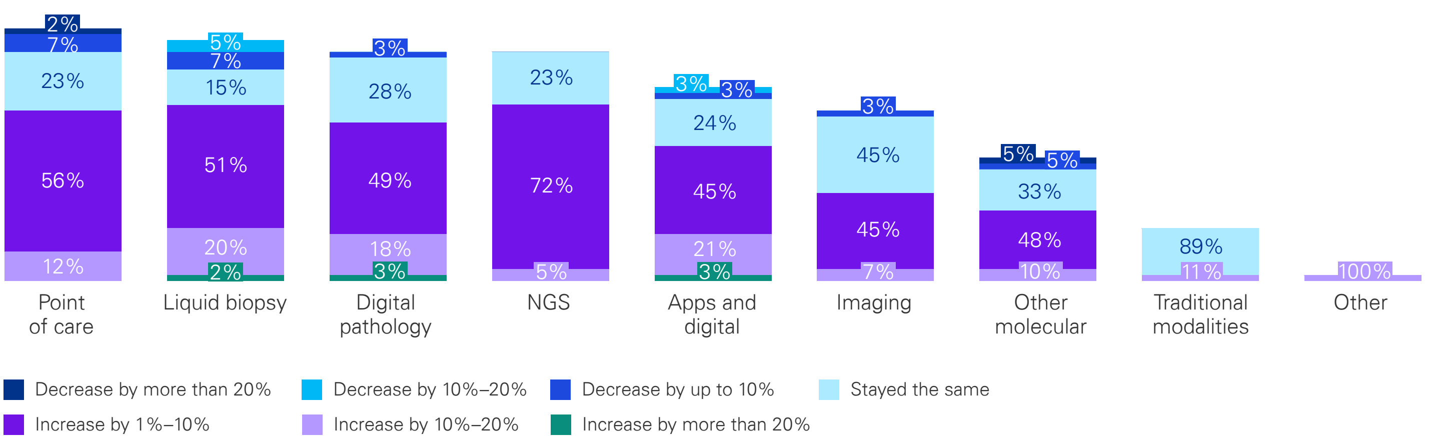


Note(s): Percentages may not add to 100 due to rounding; Options changed across years but the question remained same
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

Respondents to our survey said they expect point of care, liquid biopsy, and digital pathology to be among the top technologies targeted for M&A in 2026. That marks a change from last year's survey, when respondents cited next-generation sequencing, consumer-focused apps and digital, and imaging as likely priorities. Asked about the valuations of target assets, most respondents anticipate that they will rise, with 73 percent, 70 percent, and 68 percent expecting higher valuations for liquid biopsy, digital pathology, and point of care, respectively (Exhibit 15).

Exhibit 15: Investors expect the valuations of target assets to rise

Q: How do you expect valuations in 2026 to compare to 2025?



Note(s): Bar totals based on respondents who selected the corresponding option; Options changed across years but the question remained same
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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Tailwinds and headwinds

Tailwinds

The quickening pace of post-genomic innovation. Research gains in proteomics, spatial biology, and other areas are quickly being translated into clinical advances, spurring companies to consider how to capture the potential scope and power of new diagnostic tools.

Reversal of increased FDA regulation. After a court ruling that the agency lacked the authority to impose a 2024 rule on lab-developed tests, the FDA rescinded the rule, providing regulatory relief and flexibility for clinical laboratories.[69]

Improving economic conditions. If global inflation eases and US interest rates move decidedly lower, the impact on M&A in this and other subsectors could be significant.

The pullback in federal research spending. As one result of reduced funding for developing new diagnostic capabilities, investors are increasing their focus on clinical assets for traditional in vitro diagnostics.

FDA proposes reclassification of oncology companion diagnostics. In November 2025, the FDA announced proposals to reclassify nucleic acid-based tests for use with a corresponding oncology therapeutic from Class III (high risk) to Class II (moderate risk). The Class II pathway is less burdensome for test developers, is lower cost versus Class III, and has a shorter approval timeline. The FDA believes this could enable more manufacturers to develop these tests.

Headwinds

High valuations. With a limited universe of attractive targets, companies looking to make deals in this subsector could face expectations of high deal multiples.

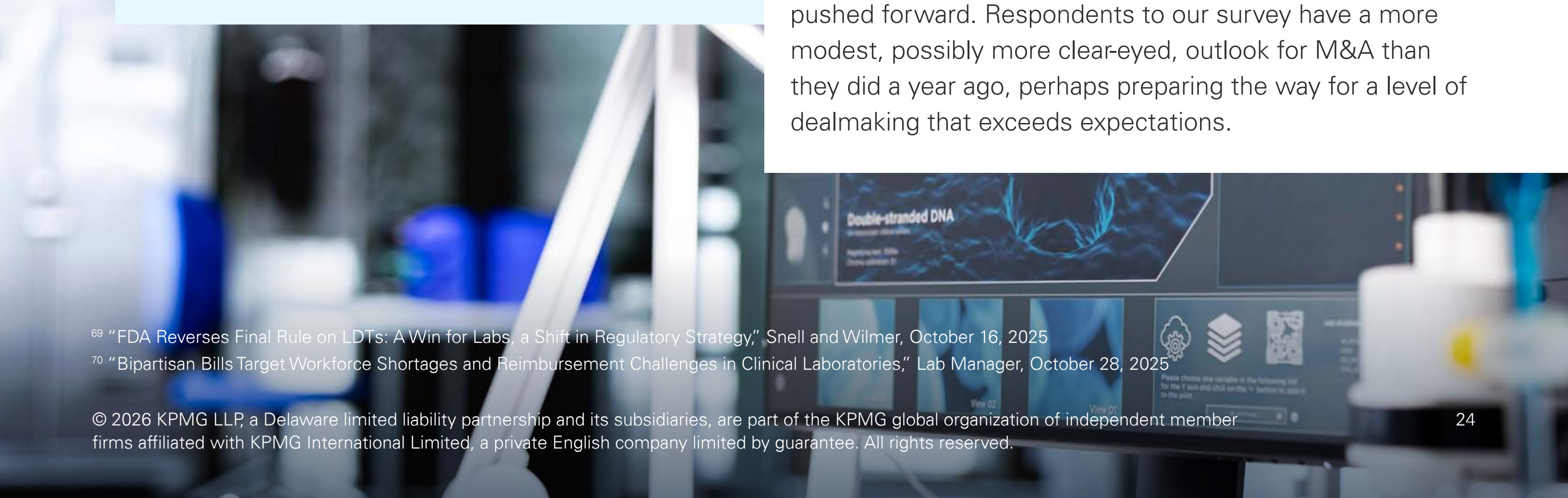
Oversupply of lab real estate and capacity. As companies continue to scale back post-pandemic operations, a glut of property and facilities could put a drag on earnings and discourage investment.

Tariff risks for cross-border acquisitions. Uncertainty about tariff levels and targets and their impact on supply chains has the potential to constrain deal flow and impact valuations.

Labor shortages and reimbursement challenges. As many clinical labs continue to struggle with staffing and payment issues, the passage of two pieces of proposed bipartisan legislation—the Medical Laboratory Personnel Shortage Relief Act and Reforming and the Enhancing Sustainable Updates to Laboratory Testing Services (RESULTS) Act—could provide some relief.[70]

The takeaway

In 2025, life sciences tools and diagnostics companies continued to shape themselves for a future of advanced testing and AI-enabled tools and processes. A few large transactions shared the stage with many smaller ones, and although overall deal volume was lower, the push toward innovation and consolidation in key categories pushed forward. Respondents to our survey have a more modest, possibly more clear-eyed, outlook for M&A than they did a year ago, perhaps preparing the way for a level of dealmaking that exceeds expectations.



[69] "FDA Reverses Final Rule on LDTs: A Win for Labs, a Shift in Regulatory Strategy," Snell and Wilmer, October 16, 2025

[70] "Bipartisan Bills Target Workforce Shortages and Reimbursement Challenges in Clinical Laboratories," Lab Manager, October 28, 2025

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Medical devices: Shaping portfolios for higher growth

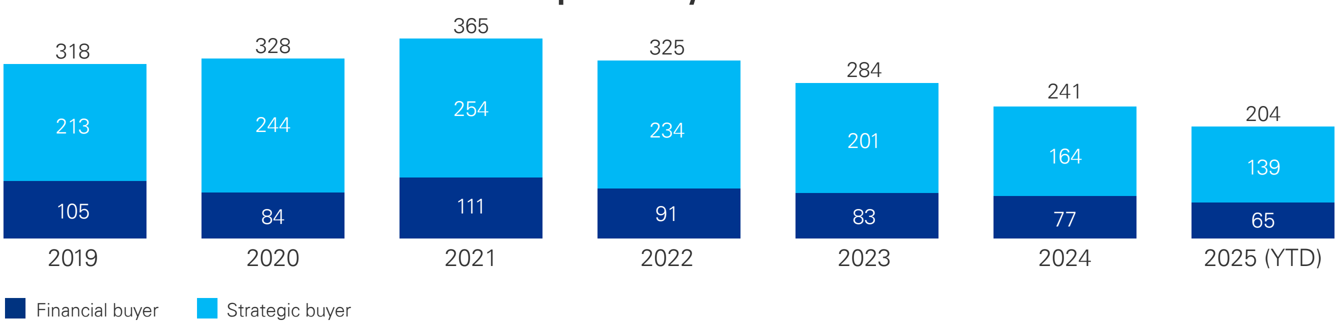
Marvels of innovation, from AI-driven radiology applications that outperform human experts to surgical robots that operate seamlessly on any part of the body, are increasingly entering the mainstream of medical practice and having a growing impact on the medical device industry.

Yet in those and other areas, the pace of progress continues to accelerate, and both strategic and financial dealmakers were active in 2025 in seeking out the most promising advancements.

The medical devices subsector is dominated by a handful of large companies, many of which used acquisitions and divestitures to refocus their holdings to generate maximum growth. Smaller companies, too, made moves to establish themselves in several categories. And while the overall level of M&A was lower than in previous years (Exhibit 16), deals could proceed at a quicker pace in 2026, especially if macroeconomic conditions improve and uncertainty about tariffs and other policy issues is resolved.

How medical devices fared in 2025

Exhibit 16: Overall M&A below levels in previous years



Notes: Strategic deals data for biopharma sourced from Informa while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2025

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We saw several noteworthy trends in medical devices in 2025

Key acquisitions emphasized high-growth areas. Several large and midsize transactions strengthened device companies' cardiovascular, ophthalmology, and oncology portfolios. Following its 2024 acquisitions of Silk Road Medical[71] and Cortex,[72] Boston Scientific continued its emphasis on cardiovascular health with its purchase of Bolt Medical, which has an intravascular lithotripsy platform for treating coronary and peripheral artery disease.[73] The firm also acquired Sonivie, which specializes in renal denervation, a catheter-based procedure that uses energy to destroy nerves in the kidney to reduce activity and lower blood pressure.[74] These transactions help Boston Scientific compete in an area in which Johnson & Johnson Medtech made several very large acquisitions during the past few years.[75] In ophthalmology, Alcon was active, acquiring LumiThera, which makes non-invasive light therapy devices for treating macular degeneration,[76] and Lensar, a manufacturer of devices for laser-assisted cataract surgery.[77] Alcon also made a $1.5 billion bid for STAAR Surgical. However, completion of that deal was delayed when STAAR's largest shareholder, Broadwood Partners, balked at what it felt was an undervaluation.[78] In oncology, another high-growth area, a consortium of financial investors led by K5 Global, Bezos Expeditions, and Wellington Management, along with backing from Johnson & Johnson's venture capital arm, paid $2.25 billion to acquire a majority stake in HistoSonics, which makes an innovative ultrasound-powered histotripsy system, approved by the FDA for the noninvasive treatment of liver tumors and metastases.[79]

Portfolio shaping led to prominent exits. Some device companies used sales and spinoffs to exit businesses that no longer fit their strategic plans. Johnson & Johnson Medtech, which sold its suite of minimally invasive treatments for women with stress urinary incontinence to Caldera Medical,[80] also announced it was spinning off its orthopedics division to be a standalone business, DePuy Synthes, so that the parent company could focus on higher-growth, higher-margin markets.[81] In November, Siemens said it would transfer 30 percent of Siemens Healthineers, an imaging and diagnostics company, to Siemens shareholders, so that Siemens could increase investment in its core technology portfolio.[82] And Medtronic announced that it would separate from its diabetes business, which will become a standalone company, so that it can concentrate on high-margin growth markets such as cardiovascular, neuroscience, and medical surgical technologies.[83]

AI-powered radiology continues its surge. In 2025, AI applications for radiology expanded their market-leading position among AI-enabled medical products. By midyear, the FDA had approved an additional 115 algorithms for radiology, bringing the total number of approved algorithms to more than 870. GE Healthcare had 96 approved algorithms, Siemens Healthineers had 80, and Philips had 42.[84]

Newly approved devices and algorithms include Roche's Opulus Lymphoma Precision, which automatically analyzes PET and CT scans in lymphoma patients to help physicians see how far the disease has progressed. Hyperfine's Swoop Portable MR Imaging System is an AI-powered, portable brain scanner that can be used at a patient's bedside. And two AI-enabled radiology applications from Exo detect lung conditions that are key markers for infections such as pneumonia or tuberculosis.[85]

[71] "Boston Scientific closes Silk Road Medical acquisition," Medtech Dive, September 17, 2024
[72] "Boston Scientific continues M&A run with Cortex buy," Medtech Dive, November 4, 2024
[73] "Boston Scientific announces agreement to acquire Bolt Medical, Inc.," press release, January 8, 2025
[74] "Boston Scientific to buy Sonivie for up to $540M," Medtech Dive, March 3, 2025
[75] "J&J's recent medtech buys help to prop up devices unit," Medtech Dive, October 15, 2024
[76] "Alcon completes acquisition of LumiThera," Ophthalmology Times, September 5, 2025
[77] "Alcon Agrees to Acquire LENSAR, Inc.," press release, March 24, 2025
[78] "STAAR, Alcon Merger Drama Continues," Medical Device and Diagnostic Industry, November 11, 2025
[79] "Investor syndicate takes majority control of HistoSonics," Fierce Biotech, August 7, 2025
[80] "Caldera Medical Acquires J&J MedTech's Gynecare TVT Products," Medical Products Outsourcing, March 20, 2025
[81] "Johnson & Johnson announces intent to separate its Orthopaedics business," press release, October 14, 2025
[82] "Siemens to reduce stake in Siemens Healthineers," Medtech Dive, November 13, 2025
[83] "Medtronic to spin off diabetes business: What the 2025 separation means for investors and the future of insulin technology," Business News Today, May 24, 2025
[84] "AI in Radiology: 2025 Trends, FDA Approvals & Adoption," Intuition Labs, December 16, 2025
[85] "Artificial Intelligence-Enabled Medical Devices," FDA, December 5, 2025

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In a 2024 survey of European radiologists, 48 percent said they were active users of AI tools, most frequently for interpreting CT and MRI scans, X-rays, and mammography. An additional 25 percent said they planned to start using the tools. Studies of the effectiveness of the AI algorithms show that most meet or exceed the accuracy of physicians reading the same images. The technology has the potential to improve early detection of breast and lung cancers, and to cut the response time for managing stroke. But human oversight of AI applications remains crucial for reducing mistakes and addressing legal and ethical concerns.[86]

Several 2025 transactions involved companies extending their reach in this market. In the largest, financial investors Blackstone and TPG announced in October that they were taking medical technology company Hologic private in a deal worth more than $18.3 billion. Hologic specializes in women's health diagnostics, and earlier in 2025 it had released a study of its mammography software in which the AI program correctly identified about 90 percent of known, true-positive cases and 32 percent of previously missed, false-negative cancers.[87]

In other radiology deals, GE HealthCare announced it would acquire AI imaging firm Icometrix, which has software that automates key brain assessments for administering Alzheimer's disease therapies, a technology that GE HealthCare plans to integrate into its MRI scanners.[88] RadNet, a US leader in digital imaging, acquired CIMAR UK, which provides image management infrastructure for connecting and deploying AI radiology applications.[89] RadNet also bought iCAD, whose AI portfolio encompasses breast cancer identification, risk assessment, breast density, and breast arterial calcification evaluation.[90] Neurodiagnostics company Natus Medical acquired Holberg EEG, whose advanced AI model interprets electroencephalogram data.[91] And Gleamer, a French startup with AI-powered tools for enhancing X-rays and mammography, purchased two MRI-analysis specialists, Caerus and Pixyl.[92]

Robotic surgery moves forward. Intuitive Surgical and its da Vinci surgical robot have long dominated the robotic surgery field, and the company currently has more than 60 percent of the global market. Intuitive's latest device, da Vinci 5, received US FDA approval in 2024.[93] Yet in a market expected to grow from $2.9 billion in 2024 to $9.2 billion by 2034, several potential competitors, including medical device heavyweights, sought to make inroads in 2025. Moon Surgical announced it had added three industry experts to its team as it expanded the rollout of its Maestro platform for soft tissue robot-assisted surgery.[94] Medtronic's Hugo, which the company says is designed to be more flexible and affordable than da Vinci, was submitted for FDA approval in April after the successful completion of a large clinical trial in which the robot was used to remove prostate, kidney, and bladder tissue. Hugo is already approved for use in the EU, India, South America, and other regions, and procedure volume using the robot has been doubling each year.[95] Also in 2025, Johnson & Johnson MedTech announced it had completed the first cases in a clinical trial for its OTTAVA Robotic Surgical System. Used for gastric bypass surgery in these cases, OTTAVA is designed to perform a broad range of soft-tissue procedures.[96] In transactions to increase its robotic surgery capabilities, orthopedics firm Zimmer Biomet in April acquired Paragon 28, which focuses on foot and ankle surgery, and in July added Monogram Technologies, which has a semi-autonomous robot approved by the FDA for total knee replacement surgery. Zimmer has a leading position in several non-US robotic surgery markets.[97]

[86] "AI in Radiology: 2025 Trends, FDA Approvals & Adoption," Intuition Labs, November 12, 2025
[87] "Hologic to go private with $18.3B acquisition by Blackstone and TPG," Fierce Biotech, October 22, 2025
[88] "GE HealthCare to acquire Alzheimer's imaging AI firm Icometrix," Radiology Business, September 11, 2025
[89] "RadNet Acquires CIMAR UK, Empowering DeepHealth to Accelerate AI-Powered Imaging, Reporting and Image-Based Screening," press release, November 11, 2025
[90] "RadNet's DeepHealth concludes iCAD acquisition," Medical Device Network, July 21, 2025
[91] "Natus fully acquires Holberg EEG to boost neurological diagnostics," Medical Device Network, October 1, 2025
[92] "Radiology AI software provider Gleamer expands into MRI with two M&A transactions," Tech Crunch, March 10, 2025
[93] "Why 2025 is a key year for the surgical robotics market," Medical Device Network, February 19, 2025
[94] "Moon Surgical hires 3 executives for soft tissue robot expansion push," Medtech Dive, June 25, 2025
[95] "Medtronic sends Hugo robot in for FDA review with urologic study success," Fierce Biotech, April 28, 2025
[96] "Johnson & Johnson MedTech Announces Completion of First Cases with OTTAVA™ Robotic Surgical System," press release, April 14, 2025
[97] "Zimmer bets on autonomous surgery with Monogram purchase," Medtech Dive, July 16, 2025

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Outlook and investment considerations for 2026

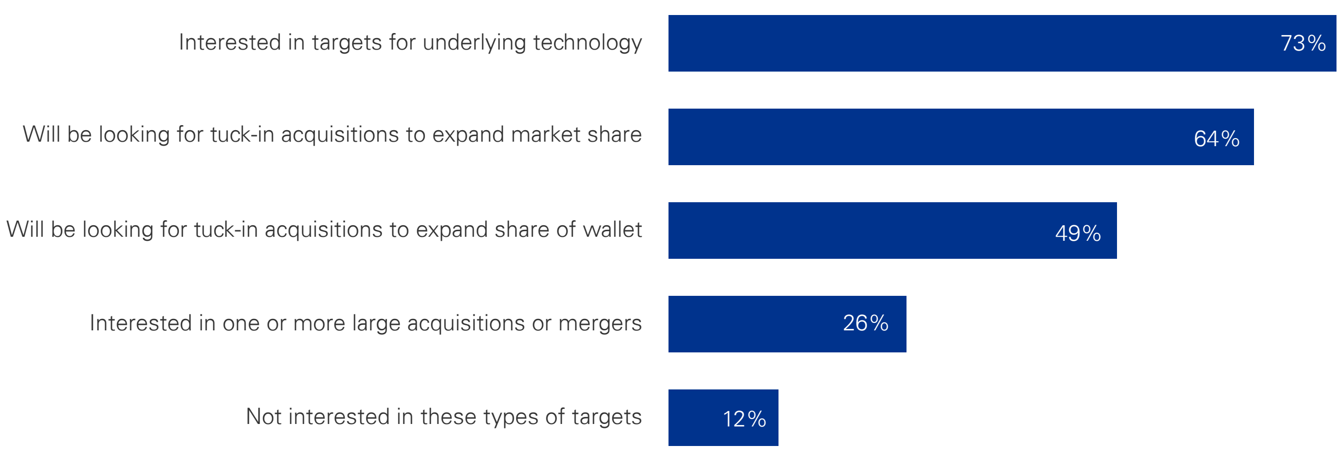
Medical devices for a range of elective surgeries remain a crucial part of this subsector, and respondents to our survey noted the kinds of deals they could pursue in 2026. Seventy-three percent said they were interested in potential acquisition targets for their underlying technology, 64 percent expected to look for tuck-in acquisitions to expand market share, and 49 percent said they were looking for tuck-in acquisitions that could expand their share of wallet. Twenty-six percent expressed an interest in large acquisitions or mergers. Compared with respondents to last year's survey, larger percentages this year said they were considering tuck-ins and a lower percentage was thinking about big mergers or acquisitions (Exhibit 17).

What kinds of deals are likely to characterize 2026? Forty-seven percent of respondents chose small, strategic tuck-ins that would add innovative capabilities and products, and 27 percent said they expected small strategic tuck-ins within core capabilities and product areas. Fewer respondents this year anticipated that the medical device subsector in 2026 would be characterized by strategic partnerships—just 8 percent of respondents in our latest survey chose that option, compared with 17 percent a year earlier. Expectations of large, transformational deals were cited by 17 percent of respondents this year, compared with 16 percent last year.

Asked about the biggest challenges in the medical device subsector, pricing pressures and the inability to pass along cost increases was the top choice of 67 percent of respondents. In comparison, just 13 percent of respondents said developing new innovations was the chief headwind, and 11 percent cited difficulty getting new products to market as the number one obstacle (Exhibit 18).

Exhibit 17: How dealmakers are looking at elective surgery

Q: To what extent will you be targeting elective procedure medical device manufacturers for investment in 2026?



Note(s): Sum of percentages may not add up to 100 due to multi select question; Options changed across years but the question remained same; "Other" has not been included in the graphical representation due to no response

Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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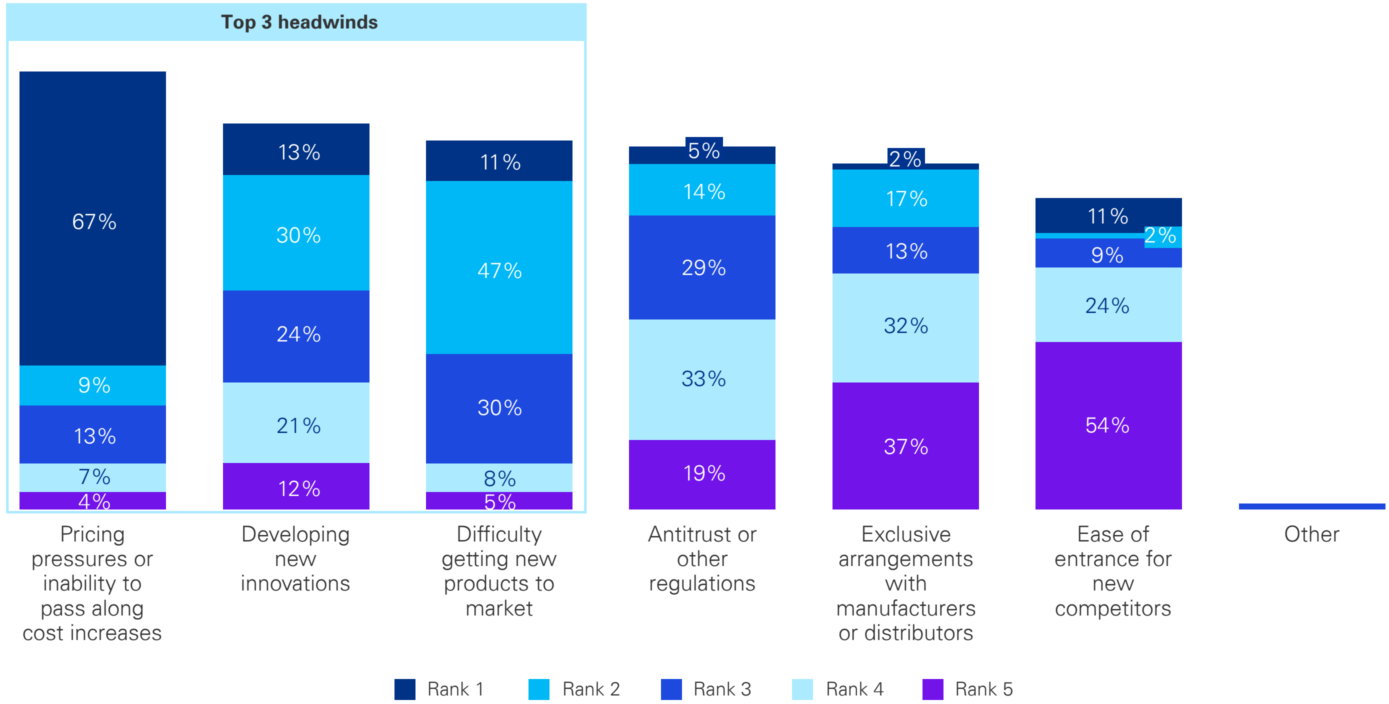
Exhibit 18: Pricing pressure ranks as the top industry headwind

Q: What do you see as the biggest headwinds in the medical device industry?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Percentages may not add to 100 due to rounding; Options changed across years but the question remained same

Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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Tailwinds and headwinds

Tailwinds

The embrace of AI in radiology and other areas. One sign of how rapidly the use of AI is progressing is the FDA's regularly updated list of approved AI-enabled devices. The agency encourages "digital health innovators" to refer to the list for insights into the device landscape, regulatory expectations, and information about how medical devices use AI. The database includes details about each device's technological characteristics and the agency's evaluation of its safety and effectiveness.[98]

A push into areas growing faster than the industry average. Much of the medical device industry involves mature products in orthopedics and other areas that can be counted on for slow and steady growth. As they eye higher margins and faster growth, industry leaders will continue to use M&A to expand into cardiology, ophthalmology, and oncology, which are among the most dynamic areas of the subsector, accounting for most major deals in 2025.

Headwinds

Ongoing uncertainty about US policy. Questions about tariffs and FTC direction could lead to caution among dealmakers as they seek to evaluate the business case for possible M&A. By one estimate, 75 percent of US-marketed medical devices could be subject to tariffs in the coming year, leading to increased prices, supply chain disruptions, and reduced accessibility.[99] And although the FTC has pivoted back to traditional metrics for evaluating medical device company transactions, remaining hurdles could slow dealmaking.[100]

A mismatch on valuations. The dispute over the purchase price of STAAR Surgical reflects a potential gap between buyers that want to be disciplined about valuations and acquisition targets that feel they can leverage their positions in a competitive market.

[98] "Artificial Intelligence-Enabled Medical Devices," US Food & Drug Administration, December 5, 2025
[99] "U.S. Tariff Announcements on the Medical Devices Industry—a Global Supply Chain Analysis," Vamstar, April 6, 2025
[100] "Regulatory Crossroads: How Antitrust Dynamics Reshape Medical Device M&A and Innovation," AInvest, August 6, 2025

The takeaway

Medical device companies made several strategic moves in 2025 to position themselves in a rapidly evolving, technology-dominated industry and to focus on high-demand, high-margin categories. Acquisitions of cardiovascular assets was a dominant theme for many of the largest companies, and there were also several divestitures and spinoffs of slower-growth holdings. Looking ahead to 2026, there is likely to be more of the same, with any uptick in dealmaking dependent on improved macroeconomic conditions and the resolution of concerns about tariffs and other policy issues.

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Biopharma services: Reshaping the industry while waiting for conditions to improve

Dealmaking involving biopharma services companies remained subdued in 2025. Forces holding M&A back include high interest rates, government support that has declined sharply since the COVID-19 pandemic, and pharma companies' questions about drug-pricing pressures and how to rebuild their pipelines.

The current downturn in M&A, however, hardly reflects a lack of enthusiasm for the essential premise of this industry—to provide any and all services, from drug discovery and development to manufacturing and commercialization, that large biopharma and smaller biotech companies choose to outsource.

Moreover, even at today's lower levels of M&A, strategic and financial investors have continued to be active, reshaping this subsector in several ways. We have seen a shift toward end-to-end service platforms for drug development and high demand for specialized, technology-driven CROs that can help drive research for advanced therapies. Thermo Fisher Scientific's $8.875 billion purchase of Clario, a clinical biomarker specialist organization focused on electronic clinical outcome assessments (eCOA) and clinical imaging assessments, was a signature transaction.[101] Companies are pushing into new markets to expand their global footprint. And the need for sophisticated manufacturing and logistics, including cold-chain technology, and data-driven commercialization services are also fueling transactions.

In another important trend, biopharma services companies have been breaking ground on manufacturing sites in the US, reflecting tariff worries and other pressures from the Trump administration to bring home drug research and production. The BIOSECURE Act, which passed in December, could restrict doing business with some Chinese manufacturers and suppliers.[102] Yet reduced dependence on Chinese companies, in particular, may take some time to achieve. WuXi AppTec, a Chinese contract research giant named as a national security threat in an earlier version of the BIOSECURE Act, has continued to work closely with US pharma and biotech companies, and during the first nine months of 2025, the company saw its revenues in the US rise by almost a third.[103]

[101] "Thermo Fisher Scientific to Acquire Clario Holdings, Inc., Enabling Pharma and Biotech Customers to Accelerate Innovation with Deeper Clinical Insights," press release, October 29, 2025

[102] "New Report Cautions That China's Pharma Dominance Poses Growing Risks to US Drug Supply Chain," Pharmaceutical Commerce, November 19, 2025

[103] "China's WuXi AppTec, after evading threat of U.S. restrictions, comes out ahead," Stat+, November 17, 2025

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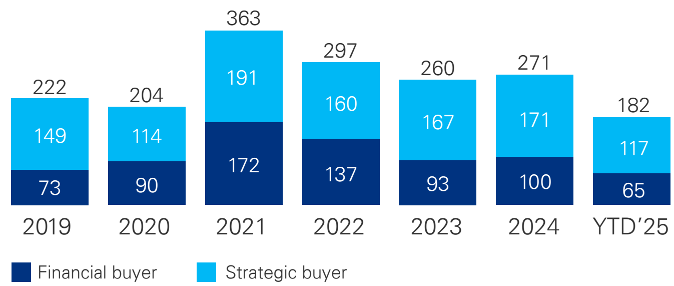
How biopharma services fared in 2025

Overall dealmaking in this subsector declined from 2024, falling to below pre-pandemic levels. Although some financial investors have been active, strategic transactions continued to outpace financial deals (Exhibit 19).

Exhibit 19: Biopharma services deals declined



Notes: Strategic deals data for biopharma sourced from Informa while all other LS subsectors' data has been sourced from Capital IQ, Refinitiv, Informa, and Pitchbook; HC data has been sourced from Capital IQ, Refinitiv, and Pitchbook; Annual biopharma deal outlook publication does not include M&A deal activity with financial investors and includes other non-M&A deals such as strategic R&D collaborations, outputs will thus differ to this publication; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Pitchbook; Informa; Refinitiv; all accessed in December 2025

We saw several noteworthy trends in biopharma services in 2025

Specialized CROs, site management, and advanced technology are reshaping the research landscape. PE and strategic investors have been focused on extending their geographic reach while adding smaller CROs with expertise in oncology, rare diseases, and CNS disorders, among other specialized areas. There is also an increasing emphasis on site management organizations and site networks, while eClinical technology and site software are helping companies build end-to-end technology platforms for clinical trials.

Illustrating the demand for geographic reach and specialized expertise, PE investors GIC and Temasek in March acquired a substantial stake in Singapore-based CRO Novotech from TPG. Novotech, with strong experience in running clinical trials for cell and gene therapies, radiopharmaceuticals, and mRNA treatments, will use the investment to expand its global footprint from the Asia Pacific region to the US and the EU. The transaction values the CRO at about $3 billion.[104] In other deals, Clinilabs, a US-based, CNS-focused CRO, received a majority investment from InTandem Capital Partners,[105] while leading CRO IQVIA acquired Next Oncology, a Texas-based network of early-stage oncology trial sites.[106]

Site networks for clinical trials have received record levels of interest from PE investors as they seek to improve trial execution, patient access, and therapeutic specialization. In one notable transaction, BayPine Capital bought a majority interest in CenExel and will acquire additional digital resources and expertise for recruiting patients and helping them find their way through increasingly complex, targeted clinical trials.[107] PE firm Thomas H. Lee Partners purchased site network company Headlands Research with the goal of accelerating the growth of Headlands and implementing precision trial operations.[108] Vector Clinical

[104] "Temasek and GIC acquire stake in Singapore-headquartered biotech specialist CRO Novotech," TnGlobal, April 1, 2025
[105] "InTandem Capital Partners announces strategic investment in Clinilabs," press release, March 12, 2025
[106] "IQVIA to acquire Next Oncology," Axios, September 15, 2025
[107] "BayPine sees M&A for digitization of clinical trial recruitment as key to scaling CenExel," PE Hub, November 6, 2025
[108] "THL Announces Agreement to Acquire Headlands Research from KKR," press release, August 14, 2025

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Trials, a site network that collaborates with local physician practices to conduct clinical trials, received expansion funding from QHP Capital that will help Vector increase trial access for underrepresented populations.[109]

Firms were also interested in ways to make clinical trials more efficient and effective, in part by integrating previously siloed technology solutions. In that vein, Suvoda, an eClinical company specializing in randomization and trial supply management, consent, and patient outcomes data collection, merged with Greenphire, a leader in trial payments. The combined company, owned by Thoma Bravo and Bain Capital, provides an integrated, end-to-end clinical trials solution.[110] The transaction built on Greenphire's 2024 acquisition of Clincierge, a specialist in patient travel coordination.[111] In other deals, Clario acquired the neuroscience clinical outcomes assessment business of WCG, and a week later announced its purchase of neurology imaging specialist NeuroRx.[112] Then, in late October, came Thermo Fisher Scientific's purchase of Clario. The acquisition expands Thermo Fisher's digital and data capabilities.[113]

Value, geography, and cold chain are key for contract manufacturers. CDMO transactions in 2025 largely centered on high-value specialized manufacturing capabilities and geographic expansion, and the push to bring pharmaceutical production to the US was a factor in several deals. Electronics manufacturer Jabil acquired Pharmaceutics International, Inc. (Pii), a CDMO specializing in sterile injectables, lyophilization, and oral solid dose manufacturing. The deal will bring together Jabil's existing production of autoinjectors and inhalers with Pii's formulation and fill-finish expertise.[114] This focus on oral solid dose manufacturing is especially timely, as the FDA approved the first oral GLP-1 therapy for weight loss (oral semaglutide/Wegovy) in late December 2025, highlighting the growing importance of oral formulations in this category.[115] LTS Lohmann, a German drug delivery

technology company, acquired Renaissance Lakewood, a New Jersey-based CDMO that specializes in nasal spray and sterile injectable manufacturing.[116] The deal gives LTS Lohmann a US presence and expanded capabilities for intranasal drug delivery.

Contract manufacturers and pharma companies also need logistics solutions for transporting drug products. The growth in biologics, mRNA vaccines, and cell and gene therapies has created demand for "cold chain" services that provide packaging and transportation, often at ultra-cold temperatures, with rigorous, validated processes. In one notable 2025 transaction, Arsenal Capital Partners acquired cold chain specialist ThermoSafe for $725 million,[117] enabling ThermoSafe to expand its investment in advanced cold chain technology and potentially to acquire smaller firms in this area. This logistics category has also attracted interest from large transportation companies, with UPS acquiring Canadian cold chain company Andlauer Healthcare Group[118] and German specialists Frigo-Trans and BPL.[119]

[109] "QHP Capital Announces Investment in Vector Clinical Trials, Partnering with Founder Dr. Bobby Mocherla to Scale Community-Focused Research Sites," press release, September 30, 2025

[110] "Suvoda and Greenphire to merge creating a technology platform optimizing clinical trial processes and streamlining the patient journey," press release, January 13, 2025

[111] "Greenphire announces acquisition of Clincierge to enhance clinical trial support services," press release, February 1, 2024

[112] "Clario continues acquisition spree with imaging specialist NeuroRx," Fierce Biotech, March 18, 2025

[113] "Thermo Fisher Scientific to Acquire Clario Holdings, Inc., Enabling Pharma and Biotech Customers to Accelerate Innovation with Deeper Clinical Insights," press release, October 29, 2025

[114] "Jabil Acquires Pharmaceutics International, Inc. (Pii)," press release, February 4, 2025

[115] "FDA Approves Oral Semaglutide as First GLP-1 Pill for Weight Loss," ajmc.com, December 23, 2025

[116] "LTS expands its CDMO capabilities with the acquisition of Renaissance Lakewood," press release, October 13, 2025

[117] "Arsenal Capital Partners completes acquisition of ThermoSafe," press release, November 3, 2025

[118] "UPS completes Andlauer Healthcare Group acquisition," Air Cargo News, November 4, 2025

[119] "UPS: Expanding Healthcare Logistics with Frigo-Trans & BPL," SupplyChain Digital, January 9, 2025

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Commercialization services focus on advanced data analytics and digital capabilities. Pharma companies often also outsource marketing and market access services, and the explosion of data and data analytics is helping make this another growth area for biopharma services. In 2025, the founders of Klick Group, a digital pharma marketing agency, sold a significant minority share to Linden Capital Partners and Singapore sovereign wealth fund GIC, providing the firm with fresh capital to grow into new global markets and broaden its services. Earlier in the year, Klick had acquired US-based Peregrine Market Access as well as the Singapore operations of Ward6, an agency specializing in marketing to healthcare professionals.[120] In another commercialization category, EVERSANA merged with Waltz Health to create a technology platform supporting drug price transparency, AI-driven formulary design, and patient affordability.[121] And CoverMyMeds, a McKesson Ventures company, acquired RxLightning and FastAuth, part of a strategy to simplify access to medication and reduce barriers between patients and their prescribed therapies. RxLightning's digital platform will make it easier for patients to join patient support programs, while FastAuth will automate the process of obtaining prior authorization and improve access to specialty drugs.[122]

Real-world evidence (RWE) hits prime time. Real-world data platforms are becoming an integral part of drug development. As an example, RWE was at the center of health data connectivity company Datavant's July acquisition of Aetion, whose RWE analytics platform enables regulators, pharma companies, and payers to analyze outcomes from real-world datasets.[123] In addition, Arsenal Capital Partners took a majority stake in San Diego-based Rancho BioSciences, which provides data curation, integration, and analytics and can help its pharma clients unlock insights from large biomedical datasets.[124]

[120] "Klick Group eyes strong future with growth investment," press release, July 4, 2025

[121] "Waltz Health, Eversana merge, create drug pricing platform," Healthcare Finance, August 28, 2025

[122] "CoverMyMeds Announces Acquisition of Companies RxLightning and FastAuth," press release, June 8, 2025

[123] "Datavant completes acquisition of Aetion," press release, July 11, 2025

[124] "Rancho BioSciences has secured a majority investment from Arsenal Capital Partners, positioning itself for growth and innovation in data-driven drug discovery," press release, March 31, 2025

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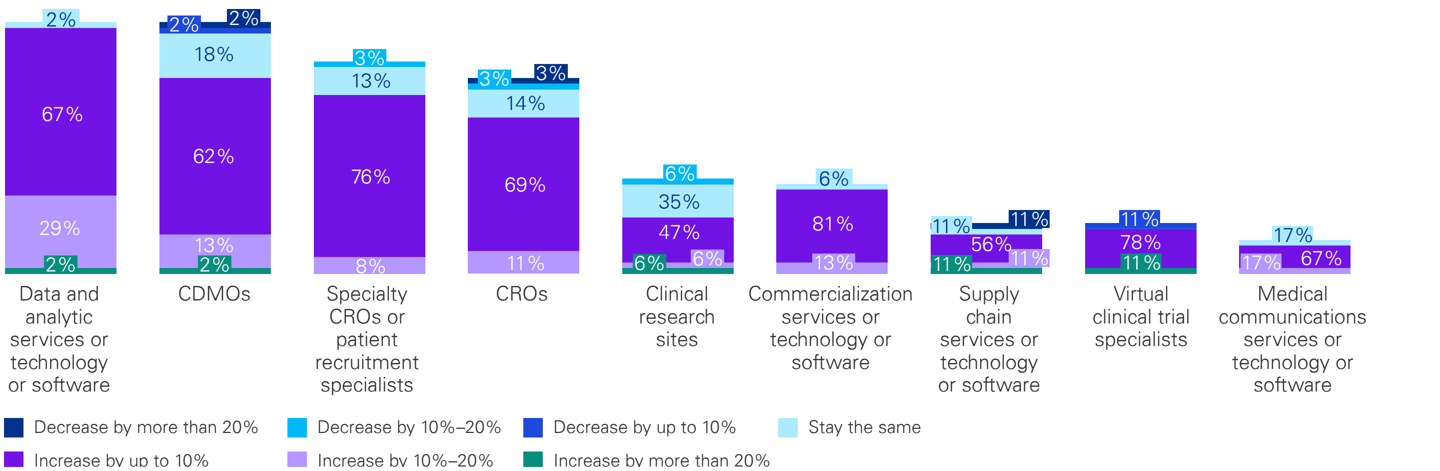
Outlook and investment considerations for 2026

Most respondents to this year's survey anticipated rising valuations for companies in almost all areas of this subsector. Reflecting strong demand for companies specializing in data and analytic services, 98 percent of respondents said they expected increased valuations in that area, while 84 percent forecast higher valuation for specialty CROs and patient recruitment specialists, and 77 percent looked for CDMO valuations to move higher (Exhibit 20). Respondents expected those same three areas to have the highest levels of dealmaking in 2026, with interest in transactions for CROs also likely to be robust (Exhibit 21).

Exhibit 20: Investors expect valuations to rise across most areas

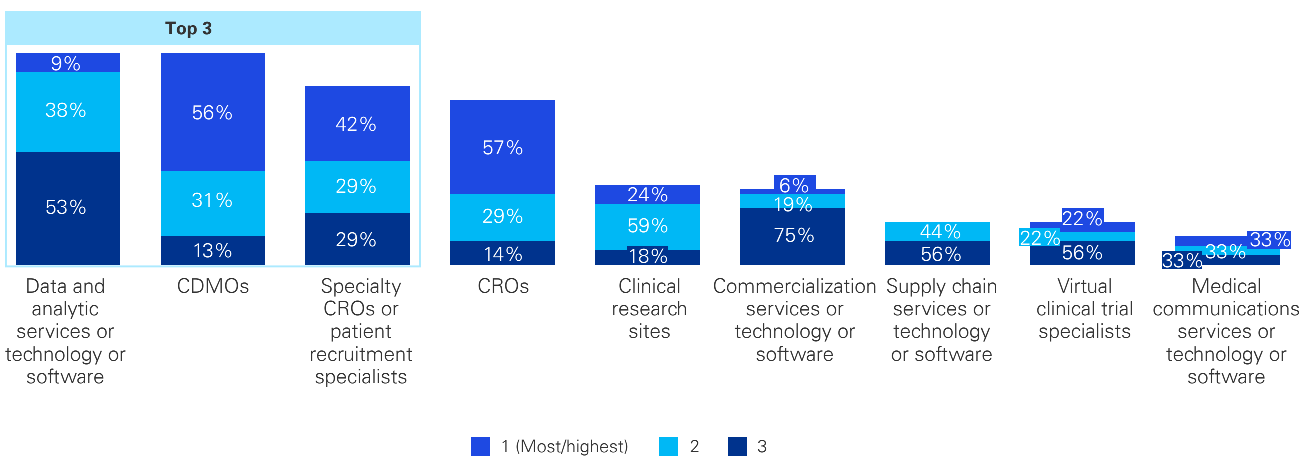
Q: How do you expect 2026 valuations to compare to those in 2025?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Percentages may not add to 100 due to rounding; Options changed across years but the question remained same; "Other" has not been included in the graphical representation due to no response
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

Exhibit 21: Where investors expect to focus in 2026

Q: What areas within biopharma services do you expect to have the most deal activity in 2026?



Note(s): Bar totals based on respondents who selected the corresponding option; Options changed across years but the question remained same; "Other" has not been included in the graphical representation due to no response
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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Tailwinds and headwinds

Tailwinds

The push to restock pharma company pipelines. With patent expirations looming for a long list of blockbuster medications, drug discovery and development is an escalating priority, and much of that work will continue to be outsourced to biopharma services companies.

Rising tide of GLP-1 medications and indications. During a year that saw a weight-loss and diabetes drug become the world's best-selling medicine,[125] GLP-1s continued to generate avid interest among large pharma companies and smaller biotechs alike, achieving a significant milestone in late December with the FDA approval of the oral dose for Wegovy.[126] This should spur demand for a wide range of biopharma services companies with capabilities in this area.

A surge of clinical assets from China. The passage of the BIOSECURE Act and other efforts to limit US industry ties to China have done little to reduce the importance of Chinese clinical assets, and a third of the dollars spent on 2025 biopharma licensing deals involved drug candidates developed in China.[127] CROs should continue to benefit from this activity.

Headwinds

Policy turmoil. Trump administration efforts to reduce drug prices as well as personnel changes and funding cuts at the FDA and other federal agencies could fuel uncertainty about the business outlook for some biopharma services providers.

The long shadow of COVID-19 oversupply. Although the biopharma services subsector has made substantial progress in adapting to lower, post-pandemic demand for manufacturing facilities, clinical trials, and other services, as well as a decrease in government funding, some companies continue to struggle to find successful business models.

[125] "Eli Lilly's weight loss and diabetes drug tops Keytruda as world's best-selling medicine," Stat, October 30, 2025
[126] "FDA Approves Oral Semaglutide as First GLP-1 Pill for Weight Loss," ajmc.com, December 23, 2025
[127] "Drugs from China are reshaping biotech. Track the licensing deals here," Biopharma Dive, December 9, 2025

The takeaway

Although M&A activity declined in 2025, the nature and scope of the deals that did get done reflect strong investor interest in innovative biopharma services companies that are reshaping and modernizing drug development, manufacturing, and commercialization. As biopharma companies compete to refill pipelines and gain an edge in producing GLP-1s and other blockbuster medications, this subsector should benefit, and we believe that increased dealmaking is likely.

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Tax takes center stage: How US reforms and global rules are redefining life sciences deals

The tax landscape for life sciences M&A and collaborations is being fundamentally reshaped by a dual wave of major US legislation and transformative global reforms. Tax is no longer a downstream consideration but a primary driver of deal thesis, valuation, and structure.

The US tax environment: Certainty and strategic choices

In 2025, the US tax environment was largely defined by the reconciliation pursuant to title II H. Con. Res. 14, commonly known as the "One Big Beautiful Bill Act" (OBBBA), which made permanent many key provisions of the 2017 Tax Cuts and Jobs Act. OBBBA provides a crucial layer of predictability that was absent in prior years, allowing for more confident long-term financial modeling in M&A.

A significant win for life sciences is the OBBBA's reinstatement of immediate deductibility for domestic R&D costs. This corrects a major pain point, though the mandate to amortize non-US R&D over 15 years remains. This distinction is now a central factor in due diligence, incentivizing the onshoring of research, and in an even more dramatic turn of events, the potential onshoring of IP. Alongside this change in the deductibility of US R&D, the OBBBA replaced the former foreign-derived intangible income regime with a more targeted incentive: "Foreign-Derived Deduction Eligible Income" (FDDEI). This new deduction is aimed squarely at rewarding income from exports tied to US-based profit-making activities. The new and improved FDDEI regime powerfully aligns with the R&D onshoring trend and makes the domiciling of IP and high-value functions in the US a critical value driver in M&A.

Furthermore, the OBBBA provides significant relief on interest expense limitations. It permanently sets the calculation based on earnings before interest, taxes, depreciation, and amortization (EBITDA), a reversal from the more restrictive EBIT-based formula. For a sector that often relies on debt to finance large acquisitions and capital-intensive projects, this change provides crucial financial flexibility and makes leveraged deals more attractive, especially on an after-tax, cash perspective.

Looking to 2026, we can anticipate that companies will move from reacting to the OBBBA to proactively optimizing their structures within it. The permanence of these key provisions allows for more stable, long-term tax planning.

The global tax paradigm: Navigating the Pillar Two revolution

Globally, the dominant force is the Organisation for Economic Co-operation and Development's Pillar Two framework, which many believe is the most significant tax reform in a century. Now active in 2025, its 15 percent global minimum effective tax rate neutralizes the appeal of holding intellectual property in traditional low-tax jurisdictions—a cornerstone of historical life sciences tax planning.

A major emphasis has been on the immense compliance burden and, more critically here, the overhaul of M&A

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due diligence. A target's tax profile must be stress-tested against the 15 percent minimum. A low effective tax rate is no longer an asset, but a potential liability to be priced into the deal, as it can trigger top-up taxes.

Projecting into 2026, a critical point of complexity is that the US has not directly adopted Pillar Two. Instead, it maintains its own international tax system, primarily through its "Net CFC Tested Income" (NCTI) rules (prior to the OBBBA, NCTI was known as "Global Intangible Low-Taxed Income" or "GILTI"). This has created a parallel tax regime that forces US multinationals into a complex, dual-track analysis; they must comply with US NCTI rules while simultaneously modeling their exposure under Pillar Two's rules in all other operating jurisdictions. This lack of a unified standard adds significant compliance costs and uncertainty to M&A due diligence, as a target's global tax posture must be evaluated under the possibility of two separate, and not always aligned, sets of rules.

This complexity feeds into the broader impact of Pillar Two. Pillar Two's 15 percent global minimum tax has neutralized the appeal of holding IP in traditional low-tax jurisdictions.

Projecting into 2026, the market will operate in this dual-regime reality. Deal structures and IP location will be routinely modeled through both a Pillar Two and a US tax lens.

Initial compliance pains will give way to sophisticated strategic adjustments. Deal structures, financing, and IP location will be routinely modeled through a Pillar Two (and OBBBA) lens. Tax principles are influencing long-term strategic conversations, ensuring that global tax reform remains a dominant boardroom topic for the foreseeable future.

Tariff turbulence: Life sciences navigate uncertainty amid Section 232 review

As of late 2025, the US life sciences tariff landscape remains unsettled but is becoming clearer. Finished pharmaceuticals and some active pharmaceutical ingredients (APIs) are temporarily exempt, pending the outcome of a Section 232 investigation. However, medical devices, some drug, and many non-drug inputs continue to face incremental and country-specific duties. An agreement with the EU has eased pressure on critical life science flows, supporting stability for equipment, components, and research materials.

Uncertainty continues for pharmaceuticals due to the ongoing Section 232 national security investigation, which covers finished drugs, APIs, key starting materials, and derivatives. While the outcome is pending, rates up to 25 percent to 100 percent have been discussed. The Trump administration had issued letters to most of the leading pharmaceutical companies recommending they increase their production abilities in the United States.

As part of these negotiations, tariff exemptions have been offered to those companies willing to meet the government's request.

A notable feature of recent trade negotiations is the frequent carve-out of generic pharmaceuticals from new or increased tariffs. Generics, which play a critical role in controlling healthcare costs and ensuring broad patient access, are often specifically exempted in trade agreements or proposed trade frameworks. This trend reflects the recognition by policymakers of the importance of generics in public health systems, as well as the intense price competition and thin margins that characterize this segment. In contrast, branded pharmaceuticals, typically protected by patents and commanding higher prices, are less likely to receive such explicit exemptions and may face greater exposure to tariff changes. As a result, the evolving tariff framework continues to reinforce a distinction

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between generics and branded drugs, with generics currently enjoying a more stable and predictable trade environment.

The impact of the tariffs has been uneven. Many life science companies report modest margin effects, but smaller research firms and medical product providers are seeing rising costs for imported reagents, consumables, and equipment. Tariff volatility complicates clinical trial logistics and contract manufacturing, given the sector's reliance on overseas APIs and intermediates. Recent developments between the US and China have temporarily lowered some tariffs, offering relief for diagnostics and some medical devices, but this pause remains tied to broader negotiations.

Despite these protections for generics, significant uncertainty remains for smaller life sciences companies, particularly those not directly involved in trade negotiations or most favored nation (MFN) pricing discussions. These firms, which often focus on niche therapies, research tools, or early-stage innovation, may lack the resources and influence of larger multinationals. Their exclusion from the negotiating table means that their specific concerns, such as supply chain vulnerabilities, increased input costs, and limited capacity to absorb new tariffs, are not always addressed in final agreements. As a result, smaller companies face heightened risks and less clarity about future trade conditions, potentially impacting their competitiveness and ability to bring new products to market.

Looking ahead, three paths are possible. If pharmaceuticals remain exempt, pressure will focus on devices, APIs, and country-specific supply chains, with life science importers diversifying suppliers and building domestic capacity. If Section 232-based tariffs apply to finished drugs or APIs, expect price pressure, accelerated reshoring for critical molecules, and targeted exclusion requests. If more agreements like the EU framework emerge, tariff friction could ease in key corridors, allowing time for strategic realignment.

To manage tariff exposure, many life sciences companies are using customs valuation strategies. The First Sale for Export principle allows importers to declare the value from the initial sale, often excluding intermediary profit, US R&D, foreign inland freight, banking charges, and other non-production fees if these costs are not included in the price paid. To be eligible for the first sale, the merchandise needs to be clearly destined for export to the United States at the time of sale and there must be two back-to-back sales at arm's length. US Customs and Border Patrol (CBP) requires strong documentation to support such claims.

Unbundling customs value is another approach, excluding nonproduction costs like R&D, design, and engineering performed in the US (on the flip side, cost attributed to the foreign supplier are often dutiable if they relate to production). If these costs are not part of the foreign manufacturer's price, they potentially can be excluded with proper documentation. CBP closely scrutinizes these exclusions, so maintaining clear records, agreements, and documentation is critical.

Royalty payments can complicate customs value. CBP requires royalties to be included if they are a condition of sale for export. To consider a royalty non-dutiable, it must not be a sale condition or relate directly to the production of the imported merchandise.

Finally, companies are aligning transfer pricing with both tax and customs standards. Intercompany pricing must reflect arm's length principles, and methodologies used for tax should match customs valuation. Proper alignment of costs and profits can help reduce duty payments and support compliance across jurisdictions, optimizing supply chain costs as the tariff landscape evolves.

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Healthcare

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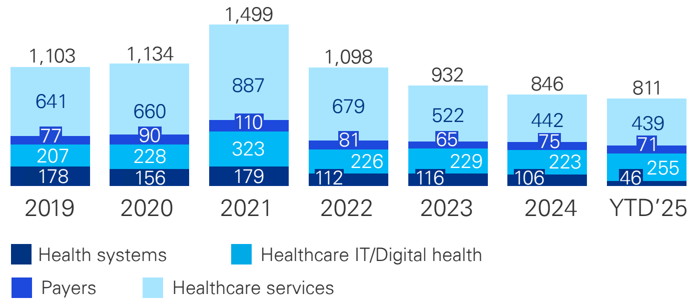
Healthcare: Shifting priorities and strategic recalibration

In a healthcare marketplace changing faster than ever, M&A in 2025 was defined by strategic recalibration rather than explosive growth. Total deal volume remained low as the industry faced persistent margin pressures and regulatory uncertainty. That said, major deals were made in each subsector as companies sought to build operational resistance. Indeed, strategic buyers continued to dominate, accounting for nearly 60 percent of deal volume, while PE activity remained selective, focused on scalable, tech-enabled assets and platform-building opportunities (Exhibit 22). The most sophisticated acquirers demonstrated disciplined integration, digital maturity, and a focus on long-term market share rather than near-term cost synergies.

Hospitals and health systems faced ongoing economic and policy challenges, with many smaller and rural institutions seeking alliances to stabilize finances and preserve access to essential services. Larger systems prioritized scale, service line rationalization, and capital access; many divested noncore assets to manage debt and margin pressures. Investment priorities included healthcare IT, preventive and chronic care management, and ambulatory growth, including partnerships with digital health and physician groups.

Healthcare services remained the most active subsector by volume, as players sought larger deals and platform consolidation. Outpatient and home-based care expansion

Exhibit 22: Total healthcare deal volume fell to lowest level in more than five years



Notes: Data has been sourced from Pitchbook; Financial investments include platform/add-on deals undertaken by private equity (PE) firms; Includes deals with only US-based Targets; YTD as of December 13, 2025

Sources: Pitchbook; all accessed in December 2025

continued as a strategic focus, driven by demographic trends and cost pressures. Behavioral health, infusion, and fertility practices saw increased investor interest, reflecting changing consumer preferences and employer coverage.

As AI and GenAI created more value across the healthcare spectrum, dealmaking volume in healthcare IT hit a four-year high. Two-thirds of physicians now use health AI, while major digital players—including Microsoft, Alphabet, OpenAI, and Nvidia—invested heavily in healthcare AI infrastructure.[128,129] Telemedicine adoption and interoperability mandates emerged as key growth drivers, while investor interest shifted toward behavioral health,

[128] "2 in 3 physicians are using health AI—up 78% from 2023," ama-assn.org, February 26, 2025

[129] "Alphabet's AI-Driven Longevity Play: A Blueprint for Revolutionizing Human Health and Delivering Decade-Long Returns," ainvest.com, September 24, 2025

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revenue cycle management (RCM), and home-based care platforms.

Payer M&A activity held steady, with fewer megadeals as organizations focused on portfolio reviews and rationalization. Regulatory scrutiny and reimbursement uncertainty, particularly in Medicare Advantage, drove divestitures of capital-intensive and margin-constrained lines. Strategic buyers accounted for 63 of the 71 deals in the space, targeting cost control, risk management, and operational optimization. Utilization spiked in 2025, especially in MA plans, driven by pent-up elective demand and aging populations. Payers increasingly pursued alliances and joint ventures over outright acquisitions, and cautious AI adoption reflected regulatory pushback on automated claim denials. "Payvider" models and payer solutions continue to evolve, with scale seen as critical for success.

Overall, M&A in 2025 confirmed that operational improvements and service line growth will continue to be top of mind for healthcare dealmakers, but highlighted a clear shift toward value-based care, digital health, and integrated partnerships. Scale and flexibility remain essential, with M&A serving as a strategic lever for adaptation. Portfolio rationalization, digital transformation, and disciplined execution could define success in 2026, as the most capable dealmakers navigate persistent headwinds and capitalize on emerging opportunities.

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Hospitals and health systems: Dealmaking increasingly imperative for success

As economic, structural, and policy challenges persist for hospitals and health systems, mergers and acquisitions are playing crucial strategic roles.

Smaller and rural institutions in particular face more pressure to forge alliances simply to keep their doors open. Many large systems are making deals to boost efficiencies as costs continue to rise, reimbursements fall, and millions of Americans stand to lose their health insurance as ACA premiums climb sharply. We believe the sector is entering an era when scale, service rationalization, and capital access are no longer simply strategic options but existential imperatives.

That said, many significant deals in 2025 were about more than scale. A few institutions made conversions to for-profit status, for example, and many invested in new capabilities and offerings to meet the rising demands of value-based care and drive profitable growth, from digital transformation to outpatient care and behavioral health.

We expect economic and political trends in the US and around the world, along with shifts in federal and state policies, to continue transforming the healthcare landscape, shifting the prospects for deals. These policy shifts can be understood in two broad categories: those that directly affect reimbursement and those that introduce new cost pressures or compliance obligations, which together create a more complex and less predictable deal environment.

More than a dozen hospital and health system transactions were abandoned in 2025,[130] in part because dealmakers now anticipate Medicaid reimbursement cuts of $1 trillion in the decade ahead, which may mean more losses when serving uninsured patients. They also face uncertainties about 340B discounts on pharmaceuticals, site-neutral payment reform, price transparency enforcement, drug pricing rules, funding for the National Institutes of Health, and tariffs, which may raise some hospitals' expenses for drugs and other supplies by tens of millions of dollars a year.[131]

Because of these and other challenges, about a third of rural hospitals in the US—more than 700 in all—may be at risk of closure, according to research at UNC Chapel Hill.[132]

[130] "14 called-off hospital deals," Becker's Hospital Review, October 15, 2025

[131] "Hospitals Are Freezing M&A Deals as Federal Policies Rattle Industry," MedCity News, April 27, 2025

[132] "Rural Hospitals at Risk of Closing," Center for Healthcare Quality and Payment Reform, October 2025

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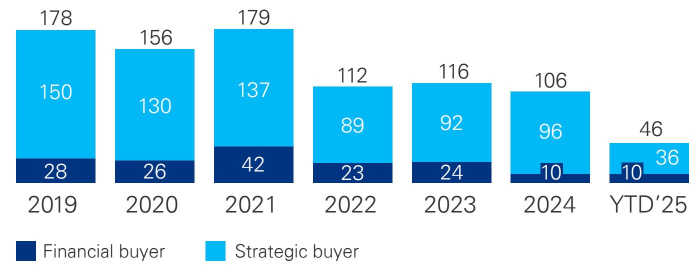
How hospitals and health systems fared in 2025

In 2025, deal activity increasingly split into two distinct motivations: defensive moves such as financial stabilization and preserving essential patient services including key sites and care options in local communities, and proactive efforts to expand capabilities, service lines, and long-term market positions. Many hospitals and health systems, especially smaller institutions, have been operating with slim or negative margins for years. Many larger institutions are seeking to raise revenue and margins by acquiring profitable ancillary or ambulatory sites such as surgery centers, diagnostics, labs, imaging, and specialty pharmacies.

This helps explain why few looked for megadeals in 2025. Instead, many institutions sought bolt-on acquisitions and partnerships to broaden revenue bases and gain capabilities and efficiencies of scale, including more negotiating power with suppliers and payers. Some divested noncore assets and adjusted their portfolios of offerings to lower debt burdens, ease margin pressures, and build resilience in a more uncertain marketplace. Smaller hospitals with less capital and fewer options

Exhibit 23: Deal volume drops well below levels in recent years



Notes: HC deals have been sourced from Capital IQ, Refinitv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by private equity (PE) firms; Includes deals with only US-based Targets; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; all accessed in December 2025

continued to exit geographies and look for lifelines to stay afloat.

In this challenging sector, only 46 deals were announced or closed in 2025, down from well over 100 in each of the last five years (Exhibit 23). Private equity remained on the sidelines, making just ten deals.

We saw several noteworthy trends in hospitals and health systems in 2025

Industry realities and regulatory guardrails make health system deals less appealing to many investors today. We find that most consolidations are now more about long-term service rationalization and market share growth than quick financial gains—regulators often try to limit near-term price increases and job cuts.

One example is the merger of Northwell, a non-profit with a healthy balance sheet, with Nuvance, a distressed non-profit with rural hospitals, completed in May. The combined entity will serve 13 million people in 28 hospitals and more than 1,050 ambulatory care and 73 urgent care sites across New York and Connecticut.[133]

State regulators approved the deal with three notable requirements meant to protect rural patients:

1. **That Northwell invest at least $1 billion in Nuvance's hospitals**
2. **Those hospitals maintain service levels**
3. **Synergy capture and price increases be delayed for several years**

[133] "Northwell Health completes merger with Nuvance Health," Northwell press release, May 7, 2025

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The shift to outpatient and ambulatory care continues with implications for M&A. While demographics will drive growth in inpatient and outpatient care alike, research suggests that outpatient care volumes could rise by 18 percent in the decade ahead compared to only about 5 percent in inpatient discharges in the same period.[134]

The change will be due in part to proposed site-neutral payment regulations, which CMS plans to extend over the next three years. The new rules would equalize Medicare reimbursements for the same service across care settings, aiming to lower costs for patients and expand care choices, while spurring hospitals to optimize care delivery in lower-cost settings—and reduce their financial incentives to acquire physicians' practices.[135]

That said, the trend will likely boost the attractiveness of non-hospital assets that deliver lower-cost care safely, such as independent physician offices, ambulatory surgical centers, infusion clinics, and virtual and home care providers. Providers of home infusion, telehealth, and outpatient behavioral health may also benefit as patients, payers, and providers continue to look for cost savings.

The changes could put more pressure on some hospitals' margins as payers steer more patients toward outpatient services. Larger systems with diversified service portfolios may benefit, however, since they can more easily backfill inpatient beds with higher-acuity cases, unlike most smaller institutions. We expect the most sophisticated health systems to optimize site of service and care model strategies, for example by aligning reporting and growth goals more closely to service lines and specialties rather than hospital departments.

Labor shortages are driving workforce and technology transformations. Record-breaking COVID-19-era wage spikes are now in the rear-view mirror, but talent shortages—especially among nurses and clinical staff—are likely to continue.[136] Many institutions are luring talent with higher pay and improved working conditions, and nearly every institution is automating a broader share of administrative tasks as technologies become more powerful, affordable, and easy to use. Some healthcare institutions are gaining ground by forging partnerships with digitally mature companies.

Cybersecurity and data management remain urgent concerns. As cyber threats become broader, more frequent, and more sophisticated, hospitals and health systems are investing in data protection and compliance to safeguard patient information, maintain trust, and protect themselves from phishing, ransomware, and other potentially costly risks. A Russia-based ransomware group known as Qilin, for example, used a multi-pronged strategy to strike more than 50 healthcare companies in June 2025, disrupting service and stealing insurance and electronic health records. Due diligence will increasingly include keen attention to targets' cyber strengths and weaknesses.

Most deals were strategic efforts to shore up operations and broaden offerings. Large transactions in 2025 included Ascension's agreement to purchase Cedar Park Medical Center, a 126-bed facility in central Texas, for $460 million in cash. Its owner, the for-profit Community Health Systems in Tennessee, has been selling hospitals to reduce its billions of dollars in debt.[137] Ascension also announced that it would acquire AMSURG for $3.9 billion, expanding its portfolio by adding more than 250 ambulatory surgery centers in 34 states—many specializing in gastroenterology, ophthalmology, and orthopedics.

As in Northwell's merger with Nuvance, regulators set some ground rules in Prime Healthcare's $370 million deal to acquire eight hospitals, four senior living and post-acute care facilities, and some physician practices from Ascension Illinois, a non-profit.[138] Prime, a for-profit institution with more than 50 hospitals and 360 outpatient locations, agreed to maintain charity care and invest $250 million in capital improvements and facility, technology, and system upgrades.

Tennessee-based Community Health Systems sold its patient service centers and in-office phlebotomy sites in 13 states to Labcorp Holdings in North Carolina for $195

[134] "2025 Impact of Change Forecast," Sg2, June 2025

[135] "Leveling the Playing Field with Site Neutral Medicare Payments," Medicare Rights Center, September 3, 2025

[136] "The Complexities of Physician Supply and Demand: Projections From 2021 to 2036," Association of American Medical Colleges, March 2024

[137] "CHS' $1B hospital divestiture plan: 6 things to know," Becker's Healthcare, November 11, 2024

[138] "Prime Healthcare, Ascension Illinois close 8-hospital deal," Fierce Healthcare, March 3, 2025

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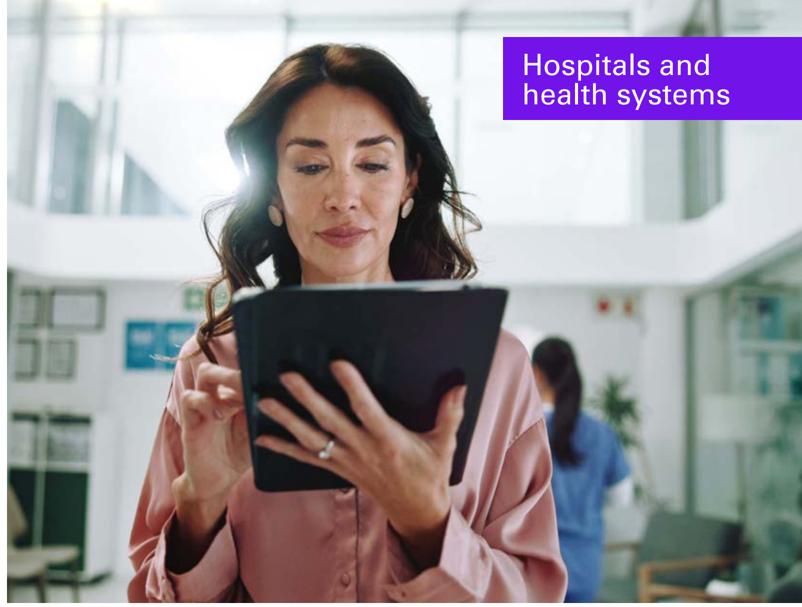


million to focus more keenly on hospital-based operations and core healthcare services—while Labcorp continued to grow its hospital partnerships and outreach services.

Some deals seemed designed to maintain hospital services in communities. The County of Santa Clara in California, for example, preserved emergency healthcare services in East San José by agreeing to buy HCA Healthcare's 258-bed Regional Medical Center for $150 million. Santa Clara will incorporate it into the county healthcare system, and restore Level II trauma care when it takes over hospital operations in 2026.

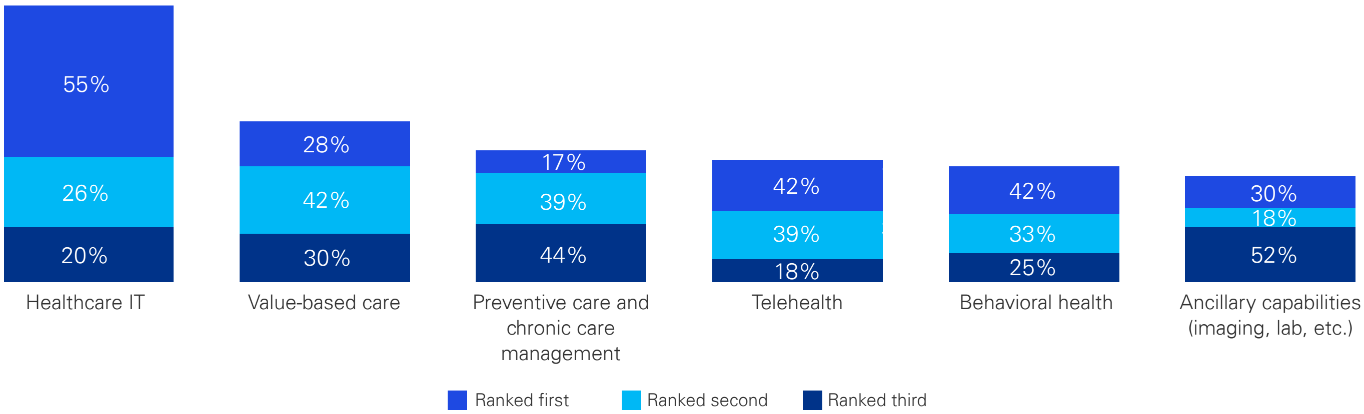
Outlook and investment considerations for 2026

Among our survey respondents, half expect deal volume to rise in 2026, compared to just 17 percent who expect a decline. More than 85 percent cite HCIT as an investment priority for their own firms, followed by VBC, preventive care, and chronic care management (Exhibit 24). Every respondent ranked the continuing move toward VBC among the top three trends that will have the most impact on their businesses in 2026.

We expect the pace of dealmaking to pick up slightly in 2026 if some uncertainties are resolved. Tariff negotiations may be settled, for example, perhaps with lower or zero rates on specific imports such as certain pharmaceutical ingredients.[139] The US agreed in December 2025, for example, not to charge tariffs on medicines, pharmaceutical ingredients, and medical technologies made in the UK, while the UK's National Health Service will pay more for new and innovative drugs, many of them made in the US.[140]

Exhibit 24: Investment priorities include healthcare IT, VBC, preventive care, and chronic care management

Q: In what areas does your organization plan to invest in 2026?



Notes: Sum of percentages may not add up to 100 due to rounding; Options changed across years but the question remained the same
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

[139] "The US Is Tiptoeing Away from Many of Trump's Signature Tariffs," Wall Street Journal, October 17, 2025; see also "Health Care Roundup: Market Talk," updated September 26, 2025

[140] "UK–US deal may push up NHS drug prices to avoid US pharma tariffs," PharmiWeb.com, December 2, 2025

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Pending "site neutrality" regulations, as noted, may standardize payments across sites of service, benefiting some large health systems.

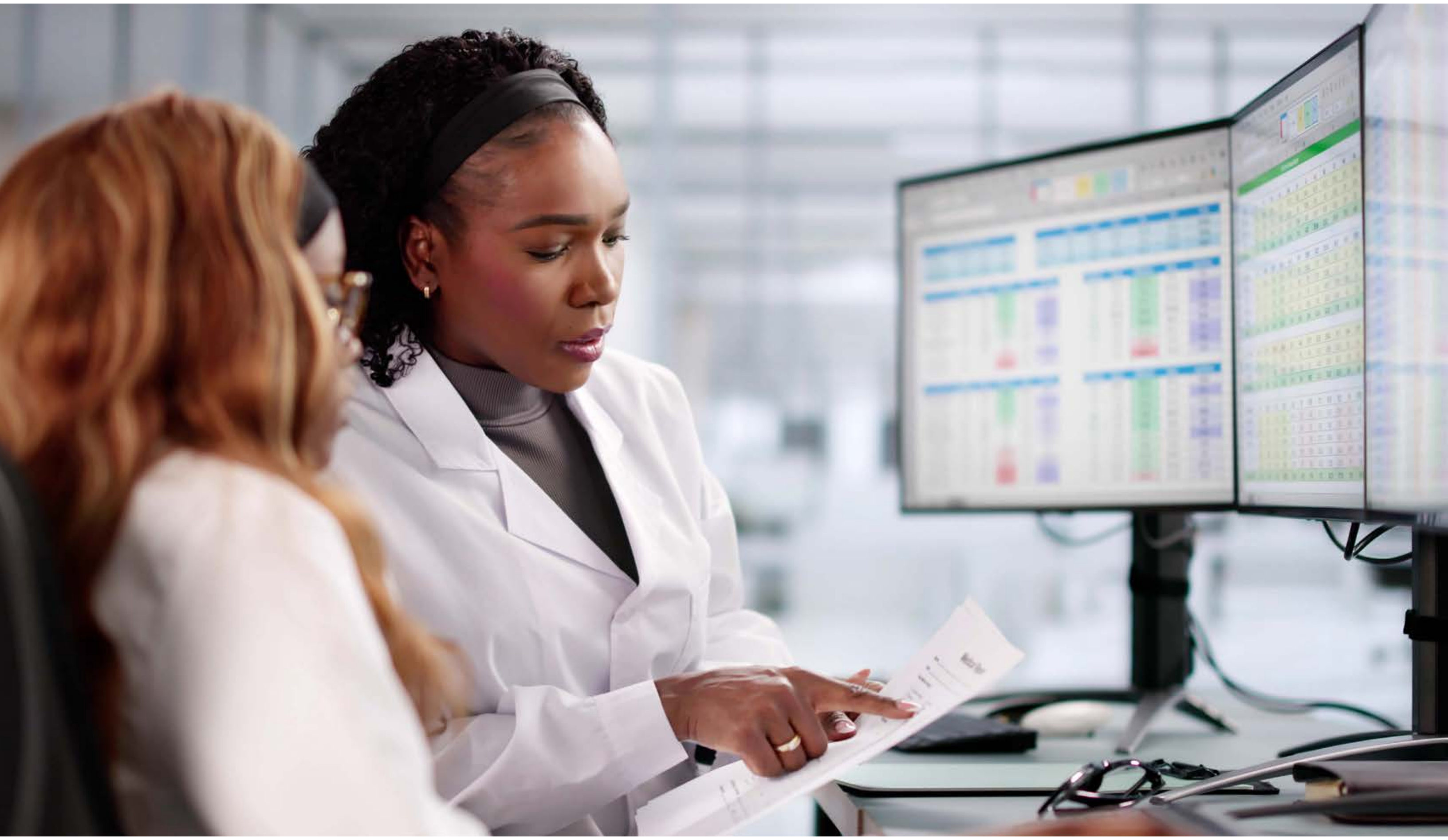
But fundamental industry challenges—and rationales for dealmaking—will remain, including margin pressures from persistent inflation, labor shortfalls, and reimbursement uncertainty. Larger players are likely to continue to manage their portfolios to pay down debt and maintain margins, and many will keep expanding across regions and beyond traditional markets to gain scale.

We believe that the most successful acquisition, partnership, and consolidation strategies will be based on long-term market share and service expansion rather than near-term cost synergies. Deals will also need to meet regulatory requirements for service levels, access, employment levels, and pricing, especially in rural and distressed markets.

Every health system will need to continuously optimize site-of-service allocations to maximize reimbursement and minimize costs while maintaining quality and access. And dealmakers will need to grasp the nuances of site neutrality, labor dynamics in relevant markets, and Medicaid and MA changes.

Those seeking acquisitions will continue to look for profitable targets such as leading firms in imaging, laboratory services, and behavioral health. That said, strategic deals should continue to dominate, and we anticipate few major PE investments in the space in 2026.

Successful acquirers in 2026 are likely to share several differentiating capabilities, including mature integration playbooks and disciplined post-merger operating models; strong balance sheets and cost-of-capital advantages that allow selective opportunistic investing; and advanced digital, data, and AI-enabled operational capabilities that enhance service-line rationalization and performance improvement.



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Tailwinds and headwinds

Tailwinds

Demographics. By 2040, one in four Americans will be 65 or older, up from 16 percent in 2019. The aging population will drive reliable growth in demand for hospital and health system services, especially in senior care, chronic disease management, and specialty treatments.

A healthy economy. Unemployment and inflation are slightly higher than they were a year ago but still moderate by historical standards. This suggests that a good share of Americans will be able to afford private health insurance or get it from their employers.

VBC. The continuing shift towards VBC will benefit the institutions most capable of improving quality and patient outcomes, and unlocking new reimbursement streams. Institutions will continue to seek deals to strengthen their VBC capabilities; half of respondents to our 2025 HCLS Investment Survey ranked these capabilities among their top three investment priorities.[141]

The pace of technological advances. GenAI and other tools are beginning to unlock new insights and handle more complex tasks, from RCM to diagnostics—and advances are accelerating.

Headwinds

Financial pressures. Costs continue to rise significantly faster than reimbursements for care in most specialties. Exceptions include telehealth and remote monitoring, including follow-up care delivered virtually, along with chronic disease management and behavioral health.

State and federal regulatory oversight. Along with changes in federal policy such as NIH budget cuts and shifts in Medicaid funding, regulators will continue to shape deal activity.

Ongoing staffing challenges. Identifying, hiring, and retaining skilled employees will require creativity and financial resources, particularly if foreign-born caregivers are prevented or discouraged from working in the US.

[141] KPMG HCLS Investment Survey, November 2025

The takeaway

In 2026, we expect outperformers to use M&A and partnerships to build integrated delivery networks—aligning care-team models, sites of service, and digital capabilities to deliver the right care in the right places at the right times. Those that optimize cost structure while expanding access and strengthening coordination across inpatient, outpatient, and virtual settings will create the most resilient and scalable platforms for growth.

As many provider institutions look more to survival than profitable growth, fewer megadeals are in the works; we expect a rise in bolt-on acquisitions, partnerships, and divestitures. AI is increasingly seen as a key to managing the shift to value-based care. And as labor shortages continue, many large institutions are looking less at new approaches to identifying, recruiting, and retaining staff and more to automation, digital transformation, and partnerships with tech-savvy organizations, a trend that will only accelerate with advances in GenAI.

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Healthcare services: Marking a shift toward larger deals

Healthcare services remained the most active subsector by volume, chalking up 439 deals through mid-December 2025. This was in line with last year but well below the the recent peak of 887 deals in 2021.

This broad category includes healthcare providers outside of traditional hospital-based health systems and integrated delivery networks. It encompasses medical and dental physician organizations, post-acute care sites such as home health, skilled nursing and rehabilitation centers, and ancillary care settings such as ambulatory surgery centers, urgent care, imaging and diagnostic centers, and other retail healthcare facilities.

Assets in this subsector appeal to acquirers because they tend to require less capital and grow faster than acute care assets. Demographic trends, declining reimbursement, and cost of care surges are speeding the shift to outpatient and home-based care. New research continues to indicate that procedures are consistently more expensive in hospital-based settings,[142] which influences the decisions of patients and payers alike.

We expect dealmaking in this area to continue to pick up in 2026, especially for scalable platforms with strong clinical integration, up-to-date technology, and regional density. Dental and behavioral health providers in particular attract many PE investors because of standardized reimbursements and recurring demand.[143,144] We envision less dealmaking in VBC and complex specialties, given reimbursement risks. We expect this same dynamic in some physician practices, since many acquirers struggle with valuations, integration, and reimbursement.

[142] "Physician Practice Affiliation Drives Site of Care Cost Differentials: An Opportunity to Reduce Healthcare Expenditures," Journal of Market Access and Health Policy, July 24, 2025

[143] "2025 Health Care Transaction Trends," CliftonLarsonAllen, October 8, 2025. See also "2025 Dental Transactions Update," Focus Investment Banking, June 30, 2025

[144] "Behavioral Health Market Update: Private Equity Surges Back in 2025," Olympic M&A, October 28, 2025

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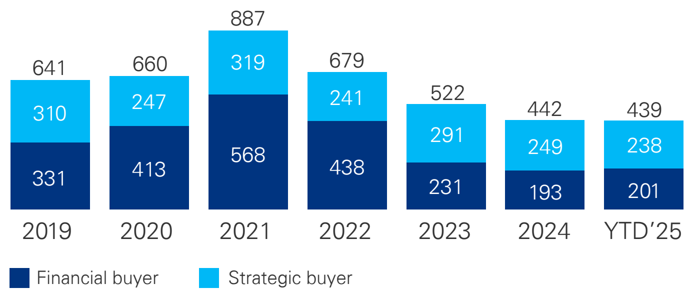
How healthcare services fared in 2025

Assets large and small changed hands. "The big three" drug distributors, McKesson, Cardinal Health, and Cencora, continued to invest billions to grow their portfolios in specialty services from urology to ophthalmology. In many cases, acquirers assume management responsibilities while providers retain minority shares in the businesses—and autonomy in serving patients.

Deal volume remained in line with last year (Exhibit 25), as noted, given the relatively predictable economics of many targets in healthcare services, and the capital available to strategic and financial investors. Sellers included PE firms seeking lucrative exits.

Exhibit 25: Deal volume remained steady



Notes: HC deals have been sourced from Capital IQ, Refinitv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity (PE) backing; Financial investments include platform/add-on deals undertaken by PE firms; Includes deals with only US-based targets; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; all accessed in December 2025

We saw several noteworthy trends in healthcare services in 2025

Major distributors invested billions to stake claims in specialty services. McKesson acquired about 80 percent of PRISM Vision Holdings, an ophthalmology and retina management services provider, for about $850 million in April.[145] In June, McKesson also bought a controlling interest in Core Ventures, a business services organization established by the Florida Cancer Specialists & Research Institute, for about $2.5 billion.[146] The company's stated goals include providing high-quality cancer care in local communities, accelerating clinical development, and improving patient outcomes.

Blackstone announced in February it would acquire a majority stake in VaxCare for $1.7 billion, from Summit Partners, the previous majority owner.[147] VaxCare is a vaccine management and distribution platform that serves entities including medical practices, health systems, schools, employers, and community events.

Cardinal Health announced in August it would acquire a majority stake in Solaris Health, a leading urology management services organization (MSO), adding it to the Specialty Alliance, Cardinal's MSO platform. The $1.9 billion deal followed acquisitions of three other urology providers.[148] On January 29, 2025, Cardinal closed on its $2.8 billion acquisition of a majority stake in GI Alliance, the nation's largest gastroenterology practice with more than 700 physicians in 15 states.[149]

Cencora, a global pharmaceutical distributor with annual revenues of more than $290 billion, closed its $4.4 billion acquisition of a controlling interest in Retina Consultants of America, an MSO,[150] on January 2, 2025.

Behavioral health continued to attract investor attention. Behavioral health services, provided in remote, inpatient, and outpatient settings, range from counseling and psychotherapy to treatment for substance use, eating

[145] "McKesson Completes Acquisition of PRISM Vision Holdings, LLC," press release, April 2, 2025
[146] "McKesson Corporation Completes Acquisition of Core Ventures," press release, June 3, 2025
[147] "Blackstone Nears $1.7 Billion Deal for Summit-Backed VaxCare," AI Invest, February 21, 2025
[148] "Cardinal Health announces the addition of Solaris Health, the country's leading urology MSO, to The Specialty Alliance," press release, August 12, 2025
[149] "Cardinal Health completed the acquisition of 73% stake in GI Alliance," MarketScreener, January 29, 2025
[150] "Cencora Completes Acquisition of Retina Consultants of America," Business Wire, January 2, 2025

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disorders, developmental disabilities, and autism. Access is rising, and stigmas against mental health and substance use treatment continue to decline.

Private equity drove more than 45 percent of deal volume, targeting mostly scalable platforms and add-on acquisitions.

Demand will remain high in the fragmented behavioral health subsector, so dealmaking could be robust in 2026. That said, questions have arisen about the future of reimbursement. It has been relatively consistent in recent years, thanks in part to the Mental Health Parity and Addiction Equity Act, a bipartisan rule strengthened in 2024 that required insurers to cover behavioral health services. The law remains in force, but the current administration has suspended enforcement, likely until 2027, when regulatory reviews should be complete and a suit by a group of large employers may be resolved.[151] Medicaid cuts could also put pressure on revenues and margins in this sector in the years ahead.

Major behavioral health deals in 2025 included Roper Technologies' acquisition of Central Reach for $1.65 billion.[152] Central Reach's AI-powered platform supports clinical, administrative, and operational workflows for providers of applied behavior analysis for autism spectrum disorder, multidisciplinary therapy, and PreK-12 special education.

A merger of Centerstone and Brightli will create the country's largest nonprofit behavioral health provider, serving up to 250,000 people in more than 360 outpatient, inpatient, and residential sites in nine states, with annual revenues of more than $1 billion.[153]

NexPhase Capital, a PE firm that invests in autism therapy, healthcare, and software development, acquired Behavior Frontiers, a provider of autism care, especially early intervention for children ages 3 to 6, with more than 3,300 employees in 26 clinics and home care sites.[154] The seller was Lorient Capital.

Fertility practices benefit from rising demand and more employer coverage. Only a few deals were made in the growing and fragmented fertility market in 2025, but we expect activity to accelerate as interest rates fall, and investors gain confidence in the economy. Demand will rise as more women seek to delay parenthood—roughly 50,000 froze eggs in 2024, up from about 23,000 in 2022, and more employers now cover some or all of the cost, which can run from about $10,000 to $40,000 per woman.[155]

Other notable deals included KKR's closing of its $3.8 billion acquisition of IVI-RMA Global with 4,400 employees in more than 190 locations in 14 countries. Its North American subsidiary acquired Rise Fertility, Halo Fertility, and Reproductive Health and Wellness from Global Premier Fertility, along with three IVF clinics in California.[156]

In November, US Fertility announced a partnership with L Catterton, a consumer-focused PE firm, and Amulet Capital, its longtime healthcare-focused private equity partner.[157] The capital infusion will help US Fertility speed its network expansion beyond the roughly 120 clinics and labs it operates now to meet rising demand for its services. IVF Michigan & Ohio Fertility Centers joined Pinnacle Fertility's network in May, gaining access to its technology and expanding Pinnacle's presence into the Midwest.[158]

Many infusion businesses promise growth and profitability. Many infusion providers, especially those that provide care in lower-cost settings, have strong margin profiles that attract PE. Novo Holdings, for example, agreed in August to exit its three-year-old investment in KabaFusion, a provider of chronic and acute infusion therapies, for $2.2 billion. Kaba provides care in ambulatory infusion sites, in-home infusion pharmacies, and home health agencies in 45 states.[159] The PE acquirer, Nautic Partners, is a longtime investor in healthcare.

151 "Trump administration will pause MHPAEA final rule enforcement," Reed Smith, May 13, 2025

152 "Roper Technologies to acquire CentralReach," press release, March 24, 2025

153 "Brightli and Centerstone announce plans to merge and create nation's largest nonprofit provider of behavioral health services," press release, July 2025

154 "Behavior Frontiers Announces Sale to NexPhase Capital," press release, May 5, 2025

155 "Egg-freezing demand is up 194% in US, highlighting opportunity for employers," Forbes, September 24, 2024

156 "IVI RMA North America Expands Southern California Presence with Acquisition of Reproductive Health and Wellness Center, Rise Fertility, and Halo Fertility from Global Premier Fertility," press release, January 6, 2025

157 "US Fertility Forms Strategic Partnership to Accelerate Growth and Expand Access to Advanced Reproductive Care," US Fertility press release, November 25, 2025

158 "Pinnacle Fertility Expands Midwest Presence with the Addition of IVF Michigan & Ohio Fertility Center," press release, May 4, 2025

159 "Novo Holdings Announces Sale of KabaFusion," press release, August 26, 2025

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Court Square Capital Partners and WindRose Health Investors in February 2025 jointly invested $1.1 billion in Soleo Health, a national provider of specialty pharmacy and infusion services.[160] With fresh capital and strategic guidance, Solaris aims to expand its service offerings, improve patient access across the country, and forge new payer and provider partnerships.

Portfolio rationalization continues at scale. As more high-margin procedures move out of hospitals, major health systems are making significant investments in outpatient services. Ascension, for example, a large nonprofit health system, agreed in June to buy AMSURG for $3.9 billion.[161] The deal expands its network of ambulatory surgery centers from 58 to more than 300 in 34 states. Ascension has sold 19 hospitals since 2023, shifting its investments into ambulatory growth,[162] but still lost more than $1.8 billion in fiscal year 2024.

Outlook and investment considerations for 2026

We expect healthcare services providers to continue being among the most attractive targets for strategic and financial healthcare investors, given steady demand growth and generally reliable reimbursement. Roll-ups, partnerships, and other approaches to scale up can significantly raise profitability, particularly as AI and other tools improve efficiencies throughout these businesses, from diagnostics to billing.

More than half of our survey respondents identified acquiring clinical practices or providers as their top investment priority for 2026, followed by assets or expertise in value-based payments. Investing in new skills to keep pace in a changing marketplace ranked among the top three priorities for all respondents in the healthcare services industry (Exhibit 26).

In line with the forecasts they made in 2024, more than eight in ten respondents said they expected behavioral health to attract the most investment among specialties in 2026. That was followed by primary care, oncology, and cardiology, each cited as an industry priority by more than half of respondents.

Among barriers to growth or investment, they point to reimbursement pressures and regulatory or policy changes as the top risks (Exhibit 27).

That said, offerings in behavioral health, fertility, home healthcare, and other subsectors have broad public support—and often cost significantly less than similar care provided in hospital settings—which should help guide the decisions of legislators and regulators.

[160] "Court Square Capital Partners and WindRose Health Investors Announce Joint Investment in Soleo Health," press release, February 3, 2025
[161] "Ascension Enters into an Agreement to Acquire AMSURG," press release, June 17, 2025
[162] "Ascension's Strategic Pivot: Analyzing the $3.9B AmSurg Acquisition in Outpatient Care's New Era," CorpDev.Org, June 3, 2025

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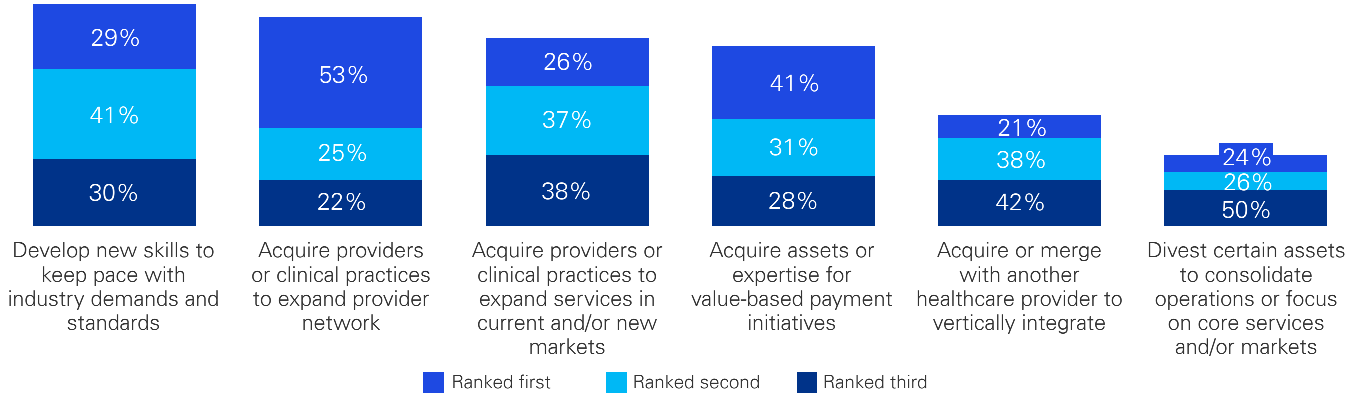
Exhibit 26: Investment priorities in 2026 include acquiring new capabilities, providers, or clinical practices to expand provider networks

Q: What are your firm's investment priorities as you invest in healthcare services in 2026?



Note: Sum of percentages may not add up to 100 due to rounding.
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

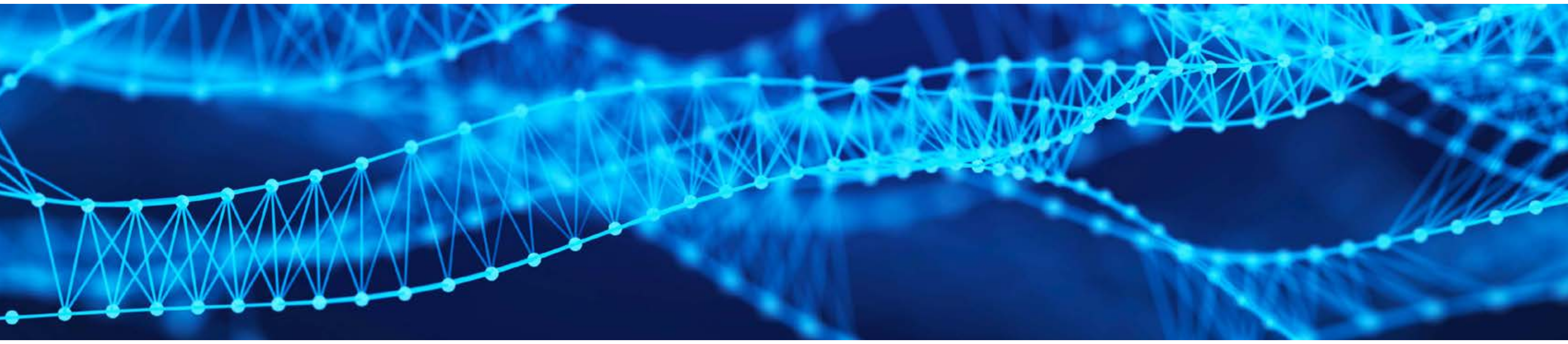
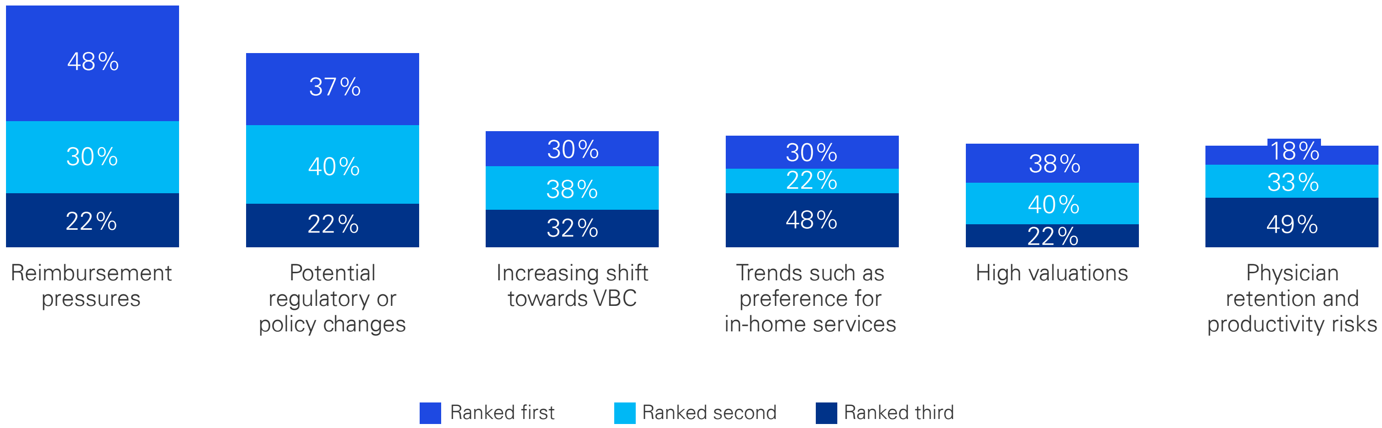


Exhibit 27: Respondents expect reimbursement pressures, regulatory or policy changes, and shift towards VBC to limit growth and/or investments in 2026

Q: What are the most significant challenges that may limit growth and/or investments healthcare services in 2026?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Percentages may not add to 100 due to rounding; Options changed across years but the question remained same
Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

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Tailwinds and headwinds

Tailwinds

Strong and rising preferences for in-home and other outpatient care options. Patients and insurers alike prefer lower costs.

Capital availability. Many sponsors are looking for exits, and strategic and financial investors continue to seek opportunities to put cash to work and gain economies of scale.

Demographics. An aging population will require more ambulatory surgery, post-acute and long-term acute care, skilled nursing, and other healthcare services for many years to come.

Headwinds

Talent shortages. The subsector will continue to face serious talent gaps that could make it more difficult and more expensive to provide services and grow, potentially reducing deal viability.

Regulatory pressures. Federal and state rules will continue to change, burdening even some of the largest players in this space—and posing daunting challenges for many smaller providers.

Rising costs of care and reimbursement pressures. As costs continue to rise faster than reimbursements, some healthcare service providers could face more margin pressure.

Rise in VBC. We believe players that can master VBC rules and metrics could gain lasting competitive advantages.

The takeaway

Many healthcare services platforms acquired by PE in 2021 and 2022 have failed to transact since. We find that some investors have encountered significant headwinds on the value-creation theses they set forth when purchasing the assets five or six years ago. Those included practice operations centralization and optimization, integration or consolidation of IT systems including EMR, PMS, RCM, and growth theses around de novo expansion or large-scale partnerships.

Since the average hold period for specialty PPMs now exceeds six years, we expect many PE sponsors to look for exits in 2026, and that some will put assets on the market with attractive valuations.

Many successful transactions in the healthcare services subsector have features in common. Rather than opportunistic acquisitions, for example, many deals are built on clearly defined strategies such as expanding into high-growth, high-margin services with lower capital requirements. Most also have specific goals such as geographic expansion or a move toward hybrid delivery models—with synergies quantified up front and tracked rigorously in the first 12 to 18 months of integration.

As noted, we find that platform businesses tend to perform better, ideally with regional density for operational efficiencies, clinical integration, physician alignment, and tech-enabled infrastructure with data interoperability.

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Healthcare payers: Revising strategies and portfolios to create value

Healthcare payer deal volume remained just below 2024 levels and just above those in 2023. The continued slower pace of dealmaking among payers—managed care organizations, claims processing and network solution providers, and pharmacy benefit managers—reflected ongoing portfolio reassessments and other strategic recalibrations.

In addition to continued regulatory scrutiny of acquisitions, payers face reimbursement uncertainty, particularly in Medicare Advantage, along with margin compression as medical costs and utilization rose faster than expected in 2025. Taken together, these pressures are forcing payers to reevaluate where they can truly create differentiated value: building and acquiring capabilities and assets that strengthen cost control, risk management, and growth pathways in MA and commercial lines.

The most active dealmakers in the subsector were TPAs, compliance platforms, and VBC enablers. As in 2024, strategic investors made the lion's share of deals in 2025, mostly cash acquisitions based on provider collections or earnings.

Some payers divested capital-intensive and margin-constrained lines of business. Cigna, for example, sold its MA, Medicare Supplemental Benefits, Medicare Part D, and CareAllies businesses for $3.7 billion to Health Care Service Corporation, the country's largest customer-owned health insurer. Others made deals in niche areas such as data analytics and VBC capabilities, in many cases through partnerships rather than full acquisitions. The widespread focus on operational optimization and risk management helps explain why megadeals were scarce in 2025—and could remain so in 2026.

Some new technologies designed to improve efficiency are creating headaches instead. At the heart of the issue is a widening gap between administrative automation designed to reduce costs and clinical decision-making standards designed to ensure appropriate care—creating friction that neither side is structurally equipped to resolve quickly. The rise of AI in claim denials, for example, is getting pushback from humans on the receiving end, including patients, providers, litigators, legislators, and regulators. These and other conflicts may take years to settle in healthcare and other realms.

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How healthcare payers fared in 2025

In this unsettled environment, many payers are holding off on acquisitions to keep leverage ratios low. Dealmaking held steady across the board, with year-on-year volume dropping about 5 percent to just 71 transactions (Exhibit 28).

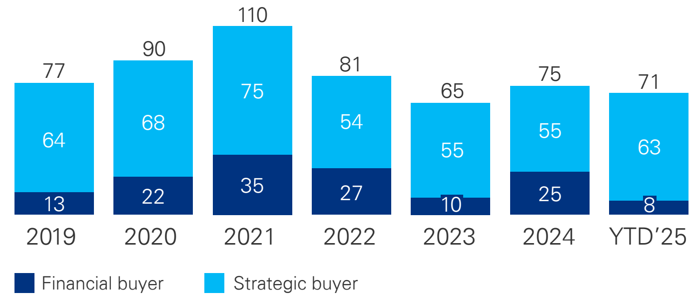
The subsector's dominant issues continued to be rising loss ratios and medical costs. In 2025, payer strategies increasingly bifurcated into playing defense to protect margins amid rising utilization, and playing offense by investing in capabilities in analytics, VBC enablement, and provider integration.

Utilization spiked in 2025, especially in MA plans, with outpatient and physician services exceeding pricing assumptions. UnitedHealth Group, for example, revised earnings estimates in April, reporting that MA care activity had doubled since 2024, especially in physician and outpatient services.[163]

Volumes rose as seniors caught up on deferred procedures such as hip replacements;[164] care shifted toward higher-need patients, increasing the average intensity of care; behavioral health access and use expanded as CMS broadened coverage and enforcement and imposed new MA network adequacy mandates for outpatient care;[165] and CMS's V28 transition slowed payment growth for clinically complex members.[166]

In response, many payers honed operations to improve performance and manage medical and administrative costs. UnitedHealthcare, for example, beat revenue and earnings per share forecasts in its third-quarter report, raising its adjusted EPS outlook slightly as it controlled costs and improved operations. Aetna reported improved margins with more rigorous coding and utilization management[167] to adjust to pent-up elective demand and rising acuity in aging MA populations.[168]

Exhibit 28: Deal volume holds steady



Notes: HC deals have been sourced from Capital IQ, Refinitv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by private equity (PE) firms; Includes deals with only US-based Targets; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; all accessed in December 2025

[163] "UnitedHealth earnings fall as MA utilization jumps," Healthcare Brew, April 17, 2025; "UnitedHealth Group Reports First Quarter 2025 Results and Revises Full Year Guidance," press release, April 17, 2025

[164] "Trends 2025: Medicare Advantage prospects strong despite challenges," Healthcare Finance, December 18, 2024

[165] "Addressing & Improving Behavioral Health," CMS, July 15, 2025

[166] "Implications of Medicare's V28 Model on MA Plans and Risk-Based Providers," LEK, October 17, 2024

[167] "Utilization management," aetna.com

[168] "Aetna's New Medicare Advantage Inpatient Policy and Its Impact on Hospitals and Patients," Brundage Group, August 15, 2025

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We saw several noteworthy trends in healthcare payers in 2025

In this turbulent maketplace, payers are exploring a range of approaches. UnitedHealthcare and Humana continue to invest in provider assets, for example, while Cigna focuses on specialty pharmacy without pursuing provider acquisitions. Like some other big payers, Cigna divested what it considered non-core assets in 2025, such as its MA and CareAllies businesses, which Health Care Service Corporation (HCSC) acquired for $3.3 billion. HCSC said the acquisition would add capabilities and broaden the company's "geographic presence."[169]

Some health systems are contemplating divestitures of the subscale, low-profit, capital-intensive health plans they sponsor, but few attracted buyers in 2025. Many of these plans face structural disadvantages including limited scale, narrower networks, higher administrative cost ratios, and higher exposure to adverse selection, which make them less attractive to external buyers. Many leaders in the field see scale as critical to success, especially in the MA market. Scale enables payers to smooth volatility in risk adjustment, negotiate more favorable provider and pharmacy rates, dilute fixed administrative costs, and manage the unpredictable swings in utilization that have reshaped MA economics.

Becker's Healthcare reported in October that at least 30 payers are downsizing workforces due to financial or operational challenges or contract losses.[170] Also in October, Elevance announced that it may impose a 10-percent "administrative penalty" on hospitals and other facilities that use out-of-network care providers for non-emergent procedures in 11 states, and may terminate them from its network.[171] The move is widely seen as an attempt to keep a lid on costs.

Many players sought alliances rather than acquisitions. Joint ventures and other partnerships can be less expensive and less risky than outright purchases, and can often win regulatory approval more quickly. Examples include a joint venture between non-profits Kaiser Permanente and Renown Health in Nevada. The deal is designed to provide VBC, combining Renown's local knowledge and provider relationships in Nevada with Kaiser's infrastructure across eight states and more than 12.5 million members.[172]

CareSource, a managed care organization with over two million members, formed an affiliation with ElderServe Health, which provides long-term services and support to over 20,000 frail, elderly, and disabled people in New York State.[173] Both are non-profits.

In another alliance halfway across the country, South Dakota-based Sanford Health, the largest rural health system in the US, completed its merger with Marshfield Clinic Health System in Wisconsin.[174] The integrated nonprofit will serve more than 425,000 members in 56 hospitals across the upper Midwest with nearly 56,000 employees, 4,500 providers, two integrated health plans, specialty pharmacies, and research institutions.

Some deals were made to rescue failing businesses. In September, a bankruptcy court approved Humana's CenterWell's acquisition of the health system serving The Villages retirement community in Florida.[175] CenterWell, a payer-agnostic provider, will serve 55,000 patients in The Village Health's eight primary care centers and two specialty care centers.

Other dealmakers sought to gain scale in narrow subsectors. In October, Ambac Financial, a holding company offering specialty insurance underwriting and distribution, completed its $250-million acquisition of ArmadaCorp Capital, a supplemental health insurance program manager. The deal advances the transition for Ambac, which changed its name in November to Octave Specialty Group, Inc., to become a pure-play specialty insurance and managing general agent platform.

Dealmaking continues in TPAs. Many large TPAs are joining forces to gain economies of scale and provide services across many lines of business, while some smaller players seek niche expertise. Acquirers are using AI and other tools to standardize and automate operations, control costs, boost margins, manage complex compliance

[169] "HCSC Completes the Acquisition of Cigna Group's Medicare and CareAllies Businesses," press release, March 19, 2025
[170] "30 payers cutting jobs—2025," Becker's Payer Issues, October 21, 2025
[171] "Commercial Facility Administrative Policy: Use of a Non-Participating Care Provider," October 1, 2025
[172] "Kaiser Permanente Launches in Nevada in 2026," Renown press release, September 10, 2025
[173] "CareSource and ElderServe Health to strengthen long-term care for older adults and adults in New York," press release, September 3, 2025
[174] "Sanford Health, Marshfield Clinic complete merger," press release, January 2, 2025
[175] "The Villages Health Announces Strategic Restructuring and Agreement to be Acquired by CenterWell," press release, July 3, 2025

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rules across jurisdictions, and find new cross-sell opportunities. Some PE platforms are pursuing TPA rollups to expand their networks and create new synergies.

FuturePlan by Ascensus, for example, one of the largest independent retirement services providers, continues to roll up regional TPAs, backed by PE owners. With a national footprint, it now serves more than 50,000 retirement plans.

The Retirement Advantage[176] takes a different tack, acquiring underperforming or succession-ready TPA firms to enhance their capabilities, extend its market position, and build economies of scale. The company is known for quick transitions and seamless integration, with local expertise and centralized compliance and tech infrastructure.

In January 2025, Imagine360 acquired HealthFirst, the TPA of UT Health East Texas, with more than 2,300 providers serving 14,000 patients.[177]

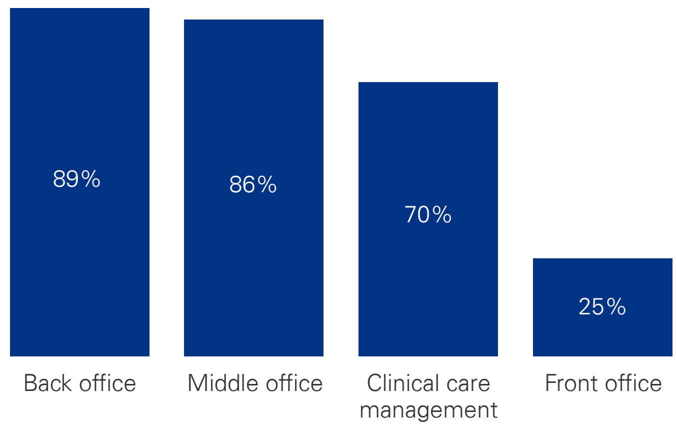
Payers are cautiously adopting AI and agentic AI. Like companies in nearly every other major industry, payers are exploring AI to reduce costs, optimize processes, and improve labor productivity. Adoption is slower than in many other industries, however, because of concerns about privacy, regulation, and litigation, especially around AI-driven denials. A "cold war" is underway between payers and providers as both sides invest in new technology that can sometimes raise rather than reduce administrative burdens. A payer looking to reduce fraud and medical loss ratios, for example, may use AI to automate claim reviews and denials, but healthcare providers may raise clinical objections to the denials, which could lead to costly administrative and legal battles.

Regulators and legislators are joining the fight. A state senator in Texas who also happens to be an orthopedic surgeon introduced a bill in 2025 to prevent AI-based algorithms from being "the sole determinant in denying, delaying, or modifying healthcare."[178] Since January 1, 2025, California has prohibited insurers from using AI to deny healthcare coverage.[179]

GenAI has now proven its worth so thoroughly that more than 85 percent of survey respondents said they expected their organizations to use it in 2026 in the back or middle offices, and 70 percent in clinical care management. Only about 25 percent expect to see it in the front office, such as in actuarial or underwriting processes (Exhibit 29).

Exhibit 29: Respondents expect GenAI to be used most in the back and middle offices and clinical care management

Q: Where do you expect your organization to pursue generative AI solutions over the next 12 months?



Note: Percentages may not add to 100 due to rounding.
Source: KPMG HCLS Investment Survey, November 2025

Dealmakers foresee growth potential in AI in healthcare settings. Machinify, for example, backed by New Mountain Capital, acquired Performant Healthcare for about $676 million in October, its second major deal in 2025.[180] Machinify aims to combine its AI analytics with Performant's audit and recovery expertise to create an end-to-end platform that improves claim error detection, prevention, recovery, and benefit coordination.

Some payers are adopting solutions such as Fast Healthcare Interoperability Resources, a standard for exchanging electronic health information securely and efficiently across systems and organizations.[181] So far, however, most of these advances are proving to be incremental rather than transformative.

[176] "The Retirement Advantage Searches for TPA Acquisition Opportunities," press release, 2016
[177] "Imagine360 acquires Ardent Health 3rd-party administrator HealthFirst," Fierce Healthcare, January 15, 2025
[178] Bill Analysis – SB 815, Texas Public Policy Foundation, February 26, 2025
[179] "Landmark Law Prohibits Health Insurance Companies from Using AI to Deny Healthcare Coverage," press release, December 9, 2024
[180] "Machinify Completes Acquisition of Performant Healthcare, Accelerating Intelligent Healthcare Payments," press release, October 21, 2025
[181] "Introducing HL7 FHIR," HL7 FHIR Release 5, March 2023

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The regulatory environment continues to pose challenges, but dealmaking is possible. These pressures fall into two main categories: heightened antitrust oversight affecting deal velocity and structure, and coverage- and access-related scrutiny that shapes long-term profitability and participation in key markets. Many leaders in the payer subsector expected a more flexible regulatory environment with the new administration in Washington, but dealmaking among payers and healthcare companies overall still faces keen federal antitrust scrutiny. States also consider healthcare a priority, raising concerns about maintaining service levels in the wake of deals, especially in rural areas, and potential reductions in competition that could lead to price increases.

The US Department of Justice and four state attorneys general challenged UnitedHealth's acquisition of Amedisys, for example. In August 2025, they approved the deal based on an agreement that the companies would divest 152 home health locations, 11 hospices, and one palliative care site across 19 states. The companies also agreed to pay $1.1 million in civil penalties and provide certain executives with antitrust compliance training.[182]

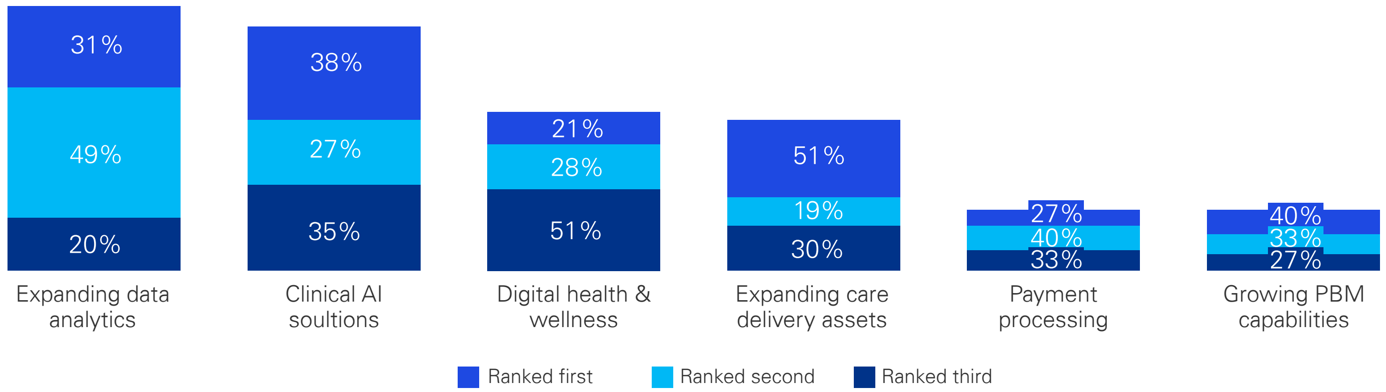
While regulators continue to vet deals carefully, we expect many merging parties to reduce uncertainties and speed closing by negotiating settlements with the DOJ, FTC, and state regulators.

Outlook and investment considerations for 2026

As rising medical costs and increased utilization continue to challenge payers across coverage types, we expect divestitures, more thoughtful and deliberate acquisitions and alliances, and portfolio moves—including exits and strategic entries. In a sign of ongoing efforts to raise efficiency and improve outcomes, all payers responding to our survey ranked investments in data analytics and clinical AI solutions among their top three priorities to support clinical services in 2026 (Exhibit 30).

Exhibit 30: Most respondents expect to invest in expanding data analytics and clinical AI solutions to support clinical services in 2026

Q: When evaluating supporting clinical services, where will your organization invest in 2026?



Note(s): Bar totals based on respondents who gave some rank to the given factor; Percentages may not add to 100 due to rounding; Options changed across years but the question remained same

Source(s): KPMG HCLS Investment Survey, November 2025; KPMG HCLS Investment Survey 2024; KPMG HCLS Investment Survey 2023

[182] "Justice Department Requires Broad Divestitures to Resolve Challenge to UnitedHealth's Acquisition of Amedisys," press release, August 7, 2025

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Structural issues will remain. For payers, disciplined execution in 2026 will mean tighter control of medical cost trend drivers, more selective benefit design, accelerated digital adoption in claims operations, and sharper exit and entry decisions in MA and ACA markets. Uncertainties continue in Medicaid, for example, such as the potential for work requirements for recipients ages 19-64 and stricter eligibility checks that could significantly lower the share of patients with coverage and therefore payer revenue. UnitedHealthcare and some other payers expect to lose members in MA and ACA in 2026, but the company's performance improvements, while modest so far, show that payers can gain ground with focused, disciplined execution, including digital adoption.

According to the Congressional Budget Office, the One Big Beautiful Bill Act will cut federal healthcare spending by more than $1 trillion over the next decade while raising the number of uninsured Americans by 11.8 million.[183] The outcome of the Medicare subsidies debate in Washington could impact exchange business and membership—millions of Americans may lose their coverage in 2026 alone.[184] In the near term, however, we do not expect these trends to be major drivers of payer strategy or dealmaking.

[183] "H.R. 1 Signed Into Law—What It Means for Medicaid and Public Coverage," HMA blog, July 10, 2025

[184] "17 Million Americans May Lose Health Coverage Under the One Big Beautiful Bill," Forbes, July 22, 2025

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Tailwinds and headwinds

Tailwinds

Reimbursement. A 5 percent rise in MA payments in 2026 will likely help these plans make ends meet.

Groundbreaking advances in computing power, data, and AI. In a subsector where efficiency is one of the few tools to improve margin growth, outperformers will be those that can navigate regulation, litigation, and the ever-growing array of high-tech offerings.

Available capital. Large players and PE firms have trillions of dollars in capital ready to invest as conditions improve and opportunities appear.

Headwinds

Medical costs. Demand for medical procedures is likely to keep rising along with the costs of care and pharmaceuticals, especially as more people take GLP-1s and other weight-loss drugs for a wider range of symptoms. Utilization remains difficult to forecast; we expect plans to keep exiting unprofitable markets in 2026.

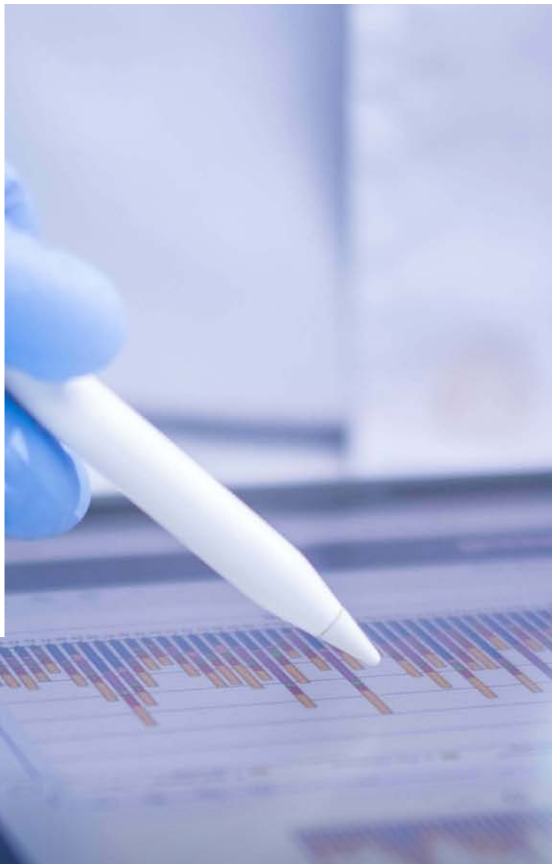
Regulations and oversight. Federal and state authorities, including regulators and legislators, will continue to look carefully at large deals and make demands on the parties with an eye toward protecting patients and communities.

Ongoing staffing challenges. Identifying, recruiting, and retaining employees will continue to challenge payers, especially if barriers rise for foreign talent.

The takeaway

The payers best positioned for 2026 will be those that build integrated platforms capable of managing the true drivers of medical cost—combining analytics, network strategy, care management, and selective provider alignment into a cohesive performance engine.

We expect success to hinge on disciplined control of medical cost volatility, thoughtful portfolio sharpening, and targeted investments that strengthen care coordination, lower cost increase trends, and improve member outcomes. In a year defined more by capability-building than megadeals, advantage will accrue to organizations that pair operational rigor with strategic partnerships and joint ventures. We anticipate focused, value-enhancing acquisitions and investments in analytics, VBC enablement, and provider integration.



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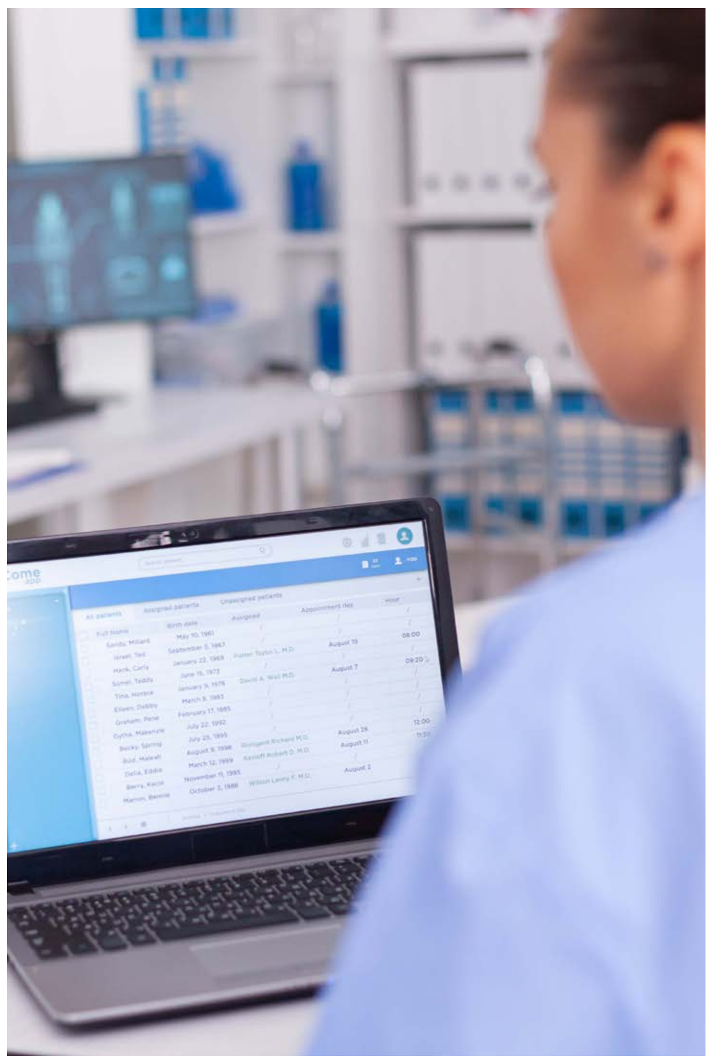
Healthcare IT: Dealmaking accelerates despite increasingly challenging marketplace

The healthcare industry generates rich troves of data, structured and unstructured, that it has only just begun to tap. New technologies, particularly AI and GenAI, are quickly unlocking more of that value.

Companies in every healthcare realm, from insurers to physicians' practices, are harnessing more powerful and more affordable digital tools to manage some of their biggest challenges. These include managing costs and risks, improving operational efficiency, helping hard-to-find workers accomplish more, and giving physicians more time with patients. Ambient listening and real-time documentation during clinical encounters, for example, are reducing caregivers' paperwork and streamlining crucial processes, from diagnosis to billing.

Dealmaking in the space accelerated in 2025, and we expect it to continue even if macroeconomic and regulatory uncertainties persist. Over the longer term, HCIT will help companies in other healthcare sectors handle demographic shifts, margin compression, digital transformation, and care decentralization. The healthcare executives and investors who responded in our annual survey expressed strong optimism for growth in the subsector and anticipate shifts toward value-based reimbursements, telemedicine adoption, and efficiency improvement.



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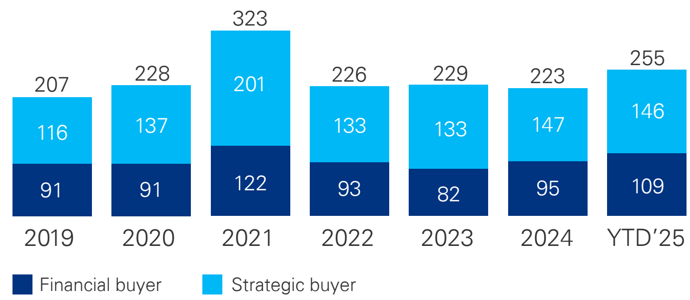
How healthcare IT fared in 2025

Deal volume reached a four-year high in 2025, up 14 percent from 2024 but still below the recent peak in 2021 (Exhibit 31). Some billion-dollar deals were made, but the number of smaller transactions grew faster, reflecting many acquirers' keen interest in mid-market and growth-stage tech assets.

The share of PE deals, at about 43 percent, was the highest since 2021.

Exhibit 31: Deal volume reached four-year high



Notes: HC deals have been sourced from Capital IQ, Refinitv, and Pitchbook; Strategic investments include deals undertaken by a public/private company with no major private equity backing (PE); Financial investments include platform/add-on deals undertaken by private equity (PE) firms; Includes deals with only US-based Targets; YTD as of December 13, 2025

Sources: Capital IQ, a division of Standard and Poor's; Refinitiv; Pitchbook; all accessed in December 2025

We saw several noteworthy trends in healthcare IT in 2025

The value of AI in healthcare is no longer speculative. A Medical Group Management Association January 2025 survey[185] of nearly 300 medical groups found that AI tools were the top tech priority of 30 percent of respondents, equaling EHR usability (30 percent) while outpacing RCM (17 percent) and patient outreach technology (13 percent) for the first time. A survey by the American Medical Association the same month[186] revealed that two-thirds of physicians used health AI in 2024, up from fewer than one in four in 2023.

Deal volume hit a four-year high as companies grew and looked for new capabilities, alliances, and tuck-ins.

Some of the world's biggest companies are investing fortunes across the HCIT landscape. While young healthcare-centric AI players garnered funding, made advances, and launched new products in 2025, the most powerful digital players invested in their own healthcare products. Microsoft, Alphabet, OpenAI, and Nvidia, for example, have announced investments of hundreds of billions of dollars in AI, much of it relevant to healthcare.[187]

Offerings extend from points of care to the back office: surgical robotics, drug discovery and clinical trials, enhanced image analysis and diagnostics, scribe technology, patient-care planning and health tracking, clinical workflows, claims and reimbursement, demand and revenue cycle management, operational improvements, and cybersecurity.

Other promising new technologies are emerging quickly. Agentic medical assistants, for example, will perform complex, automated tasks, from synthesizing patient histories to streamlining prior authorizations. Increasingly advanced AI-enabled diagnostics will be embedded into medical imaging systems, helping less experienced technicians and even skilled diagnosticians detect anomalies they might otherwise miss. Meanwhile, "digital twins," such as virtual replicas of organs, patients, or healthcare systems, will allow caregivers and researchers to simulate detailed scenarios and optimize strategies.

Given the pace and scale of investments, and the potential value of new tools, HCIT valuations are relatively high,

[185] "AI tools supplant EHR usability as medical practice leaders' top tech priority in 2025," Medical Group Management Association, January 15, 2025

[186] "2 in 3 physicians are using health AI—up 78% from 2023," American Medical Association, February 26, 2025

[187] "Alphabet building specialized AI models for healthcare," Cain Brothers Industry Insights Healthcare Market Report, September 19, 2025

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with some multiples exceeding 20x or even 25x. In this increasingly challenging and fast-moving marketplace, many buyers must conduct thorough diligence quickly.

Investor interest in 2025 shifted across the care continuum. PE firms invest in HCIT based partly on which therapeutic specialties benefit most from technology, such as those that have underinvested in digital tools or are being disrupted by regulatory changes or shifts to settings with lower costs of care. High reimbursement trends also tend to make HCIT investments more profitable.

In 2025, for example, acquirers bought several HCIT firms that serve providers of behavioral health services and home and community-based care, such as SAMMS Healthcare Group, PrecisionCare Software, and Being Cares. Firms in this space are poised to grow based on labor shortfalls, demographic trends, and regulatory changes. Behavioral health, for example, saw the highest shift from in-person to telehealth services, followed by dermatology and urgent care. Behavioral health is also expected to lead in reimbursement increases for telehealth and is improving cost efficiency faster than other specialties. Revenue cycle management also appealed to investors, in part because increasingly powerful tech-enabled solutions are easier to use and can be more effective.

Some acquirers are exploring outpatient and hybrid care delivery models to align with evolving reimbursement and care delivery trends. For example, the move toward VBC is driving demand for holistic technology platforms that manage workflows across ancillary areas.

We are seeing a transition from services-heavy to technology-driven businesses. RCM leader R1, for example, announced a partnership with AI powerhouse Palantir in March to develop intelligent automation for reimbursement "at speed and scale," reducing their reliance on large offshore workforces.[188]

PE and strategic buyers alike are pursuing platform-building and consolidation. Some PE firms are also making tuck-in acquisitions to build scale and recurring revenues. The median HCIT revenue multiple held near 4.5x YTD 2025, continuing its recovery from a low of 2.7x in early 2024, according to research by Healthcare Growth Partners.[189]

Deals in 2025 showed strong appetites for scaled, tech-enabled platforms that drive clinical and operational efficiency by automating processes to address staffing shortages, reduce administrative costs, and improve outcomes.

Major PE transactions included Clearlake Capital Group's majority investment in Modernizing Medicine, which provides solutions for clinical and operational efficiency, for $5.3 billion;[190] and New Mountain Capital's $1.4 billion strategic investment in Access Healthcare, a provider of RCM services.[191]

Ardan Equity partnered with Bain Capital to acquire HealthEdge from Blackstone for $2.6 billion and UST Health Proof from UST for $1 billion, merging the companies under the HealthEdge banner.[192] The company offers software and AI to streamline claims and improve care and utilization management and member engagement for more than 100 health plans and 110 million member lives.

Waystar, a payment software provider, said it would acquire Iodine Software from a PE firm for $1.24 billion. Iodine's single AI-powered platform combines financial and clinical data to improve clinical documentation and utilization management while reducing revenue leakage.[193]

Strategic transactions included Roper Technologies' (Nasdaq: ROP) $1.85 billion deal for CentralReach, a provider of software for applied behavior analysis (ABA), multidisciplinary therapy, and special education in autism and intellectual or developmental disability (IDD). Transcarent completed its merger with Accolade (Nasdaq: ACCD), a developer of personalized and technology-enabled healthcare solutions, for about $621 million. The combined entity now serves more than 20 million members and 1,700 employers and health plans.

188 "R1 Launches 'R37': An AI Lab to Transform Healthcare Financial Performance in Exclusive Partnership with Palantir," press release, March 14, 2025
189 "HGP Observations – April 2025," Healthcare Growth Partners, April 24, 2025
190 "Clearlake Capital Completes Majority Investment in ModMed to Fund Growth," Clearlake press release, April 30, 2025
191 "Access Healthcare Announces Growth Investment from New Mountain Capital," New Mountain press release, January 14, 2025
192 "GE HealthCare Announces Acquisition of Intelerad for $2.3 Billion," Ardan press release, November 19, 2025
193 "Waystar to Acquire Iodine Software, Accelerating the AI-Powered Transformation of Healthcare Payments," press release, July 23, 2025

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Outlook and investment considerations for 2026

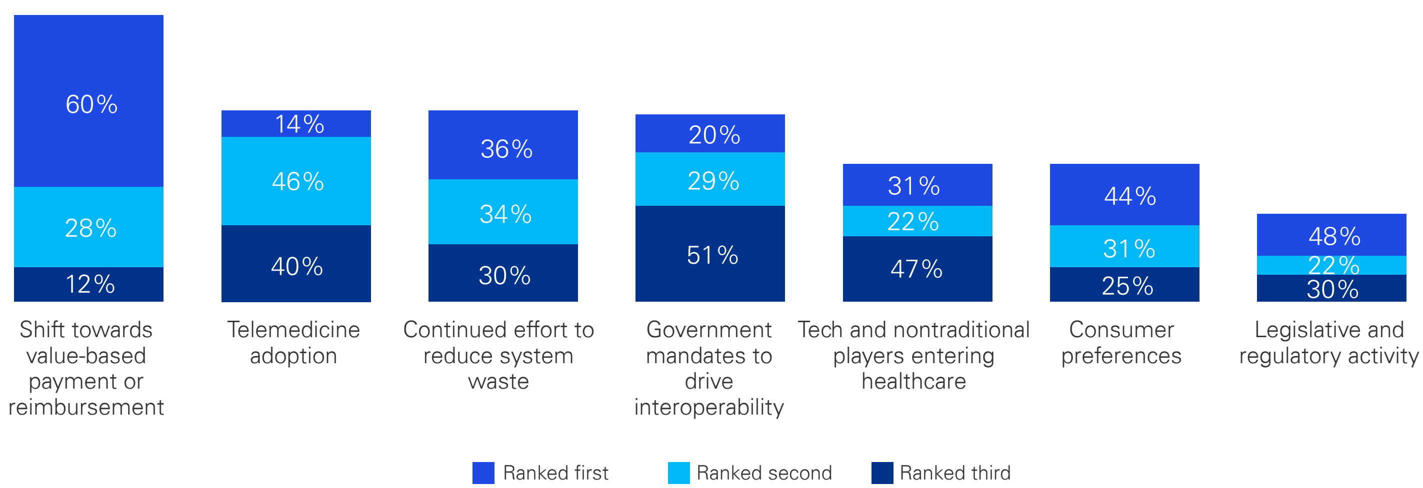
We expect interest in HCIT to remain high among both PE and strategic dealmakers in 2026 for a number of reasons. For example, players across the healthcare spectrum will need new digital tools to help them navigate complex and shifting federal and state-level regulatory environments. Especially in healthcare sectors where margins tend to be thin, companies will need HCIT to drive efficiency, automation, and innovation, as well as to control costs.

In our annual survey of healthcare executives and investors, 60 percent said they expected the shift to value-based payment to be the top driver of growth in demand for HCIT; smaller shares pointed to waste reduction efforts, consumer preferences, and other trends (Exhibit 32).

Nearly every company can benefit from innovative new tools emerging in the marketplace. Healthcare firms can explore ever-expanding troves of internal and external data to improve the patient and provider experience, for example, by creating actionable outreach lists, identifying care gaps, and making more accurate cost avoidance predictions. Closed-loop care management dashboards can help providers and payers track outreach, engagement, and outcomes across cohorts, helping teams quantify avoided ED visits, reduced readmissions, and equity impact. AI scheduling and capacity balancing models can predict demand spikes, staffing constraints, and procedure mixes, improving care access times and utilization.

Exhibit 32: Survey respondents expect demand for HCIT to shift towards value-based payment and reimbursement, telemedicine adoption, and waste reduction

Q: Which trends do you expect to drive the most growth in demand for healthcare IT and analytics in 2026?



Note: Sum of percentages may not add up to 100 due to rounding.
Source: KPMG HCLS Investment Survey, November 2025

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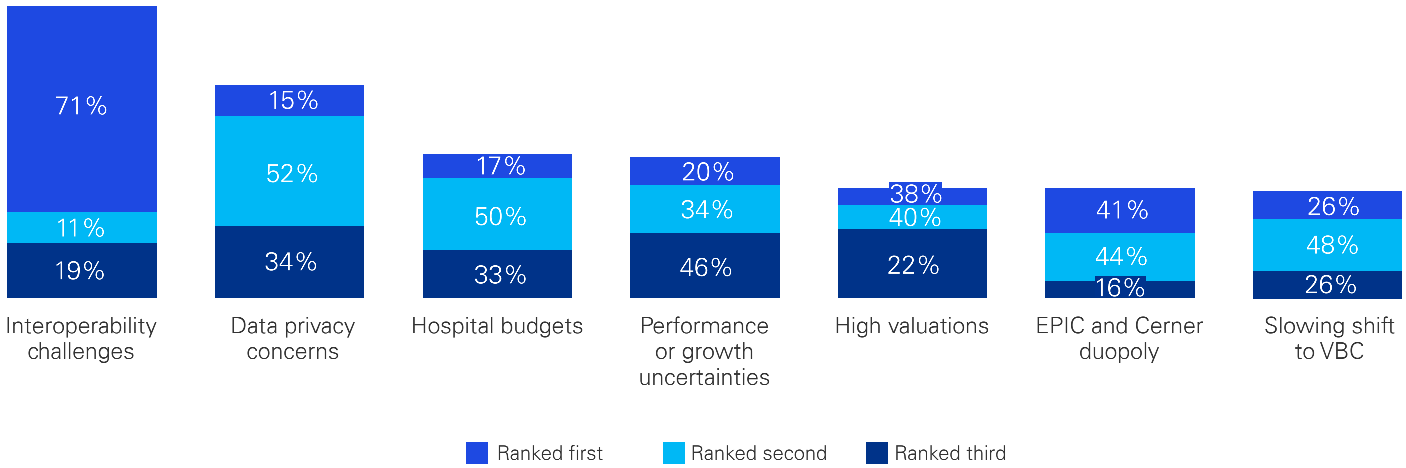
Potential barriers to HCIT growth and investment in 2026 include interoperability challenges, patient data privacy concerns, hospital budgets, and uncertainties about future growth or performance, according to our survey respondents (Exhibit 33).

As noted, behavioral health, RCM, and home-based care will continue to present particularly appealing growth opportunities, and many large players and investors will keep building resilient platforms that can scale and adapt in dynamic marketplaces.

Exhibit 33: Respondents expect interoperability challenges, patient data privacy concerns, and hospital budgets to limit growth and investment in HCIT

Q: What are the most significant challenges that may limit growth and/or overall investment in the HCIT sector in 2026?



Note: Sum of percentages may not add up to 100 due to rounding. Source: KPMG HCLS Investment Survey, November 2025

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Tailwinds and headwinds

Tailwinds

Continuing digital revolution. Advances in HCIT will reveal new dealmaking opportunities.

Available capital. As macroeconomic conditions improve, the HCIT deal market could heat up rapidly. Private equity players have about $2.5 trillion in dry powder.

Demographics. Aging populations and an inexorable rise in chronic diseases will drive demand for healthcare and high-tech solutions.

Rising costs and persistent staffing shortages. The lack of front- and back-office staff should spur healthcare companies to tap HCIT, including GenAI, to manage financial and human resources more wisely and help workers accomplish more.

The ongoing trend towards VBC. Healthcare practices will need to adopt more holistic technology solutions to manage workflows in ancillary areas of care.

Headwinds

Regulations and oversight, including cybersecurity concerns. Advances in some groundbreaking technology could be slower.

The complexity and fragmentation of state-level regulation. Some states are already pursuing their own regulation as the administration eases some federal rules or chooses not to enforce them. The more complex patchwork of compliance requirements now includes areas such as Medicaid, drug pricing, privacy, and transaction reporting, especially in healthcare consolidation.

Ongoing staffing challenges. Many dealmakers will study the talent market to identify areas most and least likely to cause bottlenecks in taking new HCIT to market.

The takeaway

Some of the macroeconomic and regulatory challenges vexing companies in other healthcare subsectors will continue to spur dealmaking in healthcare IT; AI is no longer a novelty but a proven value driver, with adoption rates rising sharply among players across the value chain, from physicians to insurers. PE and strategic buyers will keep looking for new tools that will help them control costs, boost operational efficiency, and adapt to persistent staffing shortages.

We expect dealmakers' top priorities to include data tracking and reporting in capitated or shared savings arrangements. Interoperability between EHRs and payers will allow "gap-closure" methodologies to track diagnosis codes that result in risk adjustments year over year. Data capture and reporting capabilities will also allow stakeholders to track quality, safety, and access metrics associated with performance-based contracts such as screening rates, CMS performance, and population health. Secondary priorities will likely include consumer-focused capabilities such as telehealth, patient portals and communications, and AI-enabled clinical workflows.

We expect the surge in mid-market and growth-stage tech acquisitions to continue, along with significant investments in HCIT by major digital players. Their goals are moving toward platform-building and consolidation, targeting scalable solutions in behavioral health, home-based care, and revenue cycle management.

Healthcare IT remains one of the industry's most appealing subsectors to acquirers and investors, but given high valuations, dealmakers will need to conduct deeper due diligence more quickly and then take decisive action in a fast-moving market.

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New frontiers: HCLS digital

Digital solutions to improve cancer patient care are emerging as a critical focus heading into 2026. While breakthrough drugs grab headlines, recent major exits in oncology tech (e.g., Exact Sciences, Intelerad, BillionToOne) have signaled that investors also see huge value in technology that supports patients beyond the pill.

In late 2025, the funding environment for early-stage US startups in "digital oncology support"—from patient navigation platforms to AI-driven care tools—heated up markedly. A wave of seed and Series A fundraising illustrates how innovators are harnessing tech to improve cancer care delivery and patient experience.

A dynamic funding environment.

There is growing recognition that improving cancer outcomes will not be driven by improved therapeutics alone—it's also about better care delivery, patient engagement, and data-driven decision support. With public research funding tightening, private capital is stepping in to fund startups that tackle these gaps. Many leverage AI and digital platforms to personalize care (e.g., matching patients to optimal treatments or managing symptoms at home), complementing the advances in precision drugs.

Notably, early-stage rounds (seed/Series A) have been a big driver of 2025 deal volume. This year saw significant exits and financial returns in oncology care: High-profile outcomes proved the market potential. For example, GE's $2.3 billion purchase of Intelerad (cloud imaging), and Exact Sciences' explosive growth with Cologuard (noninvasive cancer screening) demonstrated that tech-enabled oncology solutions can achieve multi-billion dollar outcomes for investors. Likewise, BillionToOne's successful IPO in November 2025 (raising $314 million) highlighted investor appetite for innovative diagnostics. These exits gave VCs and other financiers the exit visibility and path to liquidity to support the next generation of innovation.

The combination of focus beyond drugs and major validations has yielded early-stage momentum. Investors ranging from traditional VC funds to corporate ventures and family offices actively seeded new oncology tech companies in late 2025, aiming to get in on the ground floor of potentially transformative solutions. These young companies are typically less capital-intensive than biotech firms and can show impact quickly via software or services–an attractive proposition in a climate seeking quicker wins.

Illustrative examples of oncology care innovation.

In the last six months, several US startups at the forefront of "digital oncology support" secured funding to scale their innovations. These companies share a common mission: using technology (apps, AI, remote care models) to improve the patient journey in oncology—from diagnosis through survivorship—in ways that hospitals and oncologists alone struggle to do. They focus on navigating complexity, personalizing treatment choices, and extending care beyond clinic walls. The table below summarizes a few of the notable early-stage players that raised funds in late 2025, along with their value propositions.

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Company (location)	Funding (round and date)	Amount raised	Purpose/focus
Manta Cares, oncology navigation platform (San Francisco, CA)	Seed–November 19, 2025	$5.4 M	Free digital platform to help cancer patients and caregivers navigate treatment complexity and logistics
Radical Health, AI-powered personalized cancer care (New York, NY)	Pre-seed–December 4, 2025	$5 M	AI-driven platform to deliver personalized treatment recommendations for cancer patients by analyzing vast datasets. Aims to empower patients and augment oncologists' decisions.
Daymark Health, tech-enabled cancer care (virtual and in-home) (Philadelphia, PA)	Series A–September 25, 2025	$20 M	Hybrid care platform providing 24/7 supportive care, navigation, and home-based services for cancer patients, integrated with their oncology care team
Outcomes4Me, patient app for personalized cancer navigation (Boston, MA)	Series B–May 29, 2025	$21 M	Direct-to-patient mobile platform that guides cancer patients through treatment decisions and clinical trial options using real-time, personalized information

Strategic insights and outlook.

Cancer care is at an inflection point where survival rates are improving with new therapies, yet the patient experience remains fraught with complexity. Healthcare systems are struggling to provide navigation, and oncologists have limited time. Digital support tools are stepping in to fill this gap at scale. Investors foresee that these tools will become indispensable companions to traditional oncology treatment, which is why funding is flowing.

Crucially, the ultimate measure will be patient impact. The promise of these innovations is to ensure that every cancer patient—not just those at top academic centers—can benefit from personalized guidance, streamlined care, and feeling truly supported throughout their journey. Investors, clinicians, and patient advocates are aligned in recognizing that technology-enabled support is the next frontier in oncology care. In summary, the convergence of funding, proven need, and technological capability suggests that 2026 will be a breakout year for digital oncology support platforms, driving cancer care to be more connected, patient-centric, and data-informed than ever before.

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Conclusion

As relentless innovation continued to shape and reshape the HCLS landscape, dealmakers in 2025 faced challenges ranging from general concerns about the economic outlook to numerous issues specific to each industry subsector. These headwinds helped suppress the overall volume of transactions. Yet those numbers hardly reflect the reality of a year during which companies across HCLS used well-chosen and carefully crafted acquisitions, partnerships, and creative financing arrangements to position themselves for what's ahead.

Sixty-seven percent of respondents to our annual survey said they anticipate increased dealmaking in 2026. Forecasting the performance of potential acquisitions and competing for a limited number of desirable target companies could complicate those plans, respondents say. Yet other possible obstacles, including tariffs and the drug-price negotiations mandated by the Inflation Reduction Act, aren't expected to impact the pace of M&A, and if the cost of financing transactions continues to drop, the coming year could bring a long-awaited rebound in strategic and financial investments.

Our research for this report examined key trends, opportunities, and risks for investors across HCLS. In healthcare, looming, enormous reimbursement cuts could add pressures to already beleaguered hospitals and physician practices, and government efforts to reduce drug prices may have a profound impact on biopharma companies. Yet those and many other challenges only increase the importance of finding investments that can increase efficiency and unlock value. As the new year begins, we know that companies in every HCLS subsector will focus squarely on the future as they make and execute plans to position themselves for success in 2026 and beyond.

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KPMG LLP is one of the largest providers of professional services—strategy, advisory, transactions, audit, and tax—to the healthcare and life sciences industry globally with more than 6,000 industry-specific partners and professionals.

The KPMG Healthcare and Life Sciences Strategy practice specializes in advising corporate, private equity, and public organizations across all phases of the M&A lifecycle, from deal strategy to diligence to post-close value creation.

Our integrated, multidisciplinary approach provides clients with critical insights into value opportunities—and obstacles to value—at deal speed. Further, KPMG has a proprietary set of tools and methodologies to deliver data-driven insights, all sector specific and developed by leaders who have spent their careers in healthcare and life sciences.

Our dedicated healthcare and life sciences M&A teams have extensive experience in mergers, acquisitions, affiliations, JVs, and partnerships across all segments and subsectors of the healthcare and life sciences industry. We understand the regulatory, commercial, operational, and accounting complexities unique to the industry and provide a client-centric, integrated suite of services across the deal lifecycle to assist our clients in achieving business results.

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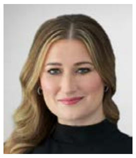

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