Young & Partners Forum

Biotech and Pharma Stock Market and Funding - 1st Quarter 2025 and Beyond

Introduction

Although the pace of innovation has been strong for both the pharma and the biotech companies and the pace of U.S. and European drug approvals continues to be solid, the stock market and funding environment for biotech companies continues to be difficult.

Although pharma stock market performance and funding continues to be solid, both biotech and pharma companies are dealing with threatened reduction in Medicaid and drug pricing, the dramatic reduction in NIH and university research funding, and the reduction in the budgets for the FDA and other federal health agencies.

The impact of these new developments is hard to predict since events are still evolving, but they certainly will not help biotech stock market valuations and IPOs.

The Stock Market and Funding

By the end of the first quarter of 2025, the S&P 500 had decreased 4.4% and the S&P Euro 350 had increased by 10.1%. Much of the decrease in the S&P 500 was due to overall economic uncertainty and tariff policy. The performance since the end of the first quarter has been volatile with constant changes in geopolitical and economic announcements, with the tariff changes being the largest factor.

But the performance of biotech industry indices were negative. The NBI index decreased by 3.3% and the Y&P Biotech Mid-Small Cap index increased by only 1.2%.

The larger biopharma companies in the U.S. and the Generics performed better relative to their respective geographic markets with the Y&P U.S. BioPharma increasing by 9.1% and the Y&P generic index increasing by 11.5%. The Y&P European index only increased by 1.1%, well below the overall European market.

Biotech companies are usually modest issuers of debt given their negative cash flows. Not surprisingly, the volume of non-bank debt issuance was $0.8 billion in the first quarter of 2025. This was a continuation of the fundraising slowdown in 2024 when only $1.6 billion of debt was issued.

Biotech equity offerings of all types pulled back in the first quarter of 2025, with only 36 equity offerings completed versus 371 offerings in 2024. The dollar volume also declined, with $5.3 billion completed in the first quarter of 2025 versus $38.1 billion in 2024.

The Biotech IPO market volume improved slightly from trough levels. 8 IPOs were completed worth $1.3 billion in the first quarter of 2025 compared to 23 IPOs worth $3.8 billion in all of 2024.

For Pharma, non-bank debt issuance in the first quarter was $29.4 billion compared to $119.4 billion for all of 2024.

This represents a moderate increase in dollar volume on an annualized basis, much of which is attributable to pharma companies such as AbbVie, GSK and Roche financing large acquisitions that they completed earlier.

Pharma equity issuance in the first quarter of 2025 on an annualized basis was higher than 2024 and much higher than 2023. Dollar volume of equity issuance in the first quarter of 2025 was $4.7 billion versus $13.3 billion for 2024. The number of offerings was dramatically lower, however, with 9 offerings in the first quarter of 2025 versus 69 offerings in 2024.

Many biotechs who have had plans to go public have been facing serious funding problems since the IPO market has been an important source of very attractive equity funds to extend their research and regulatory runways.

Biotech Funding Challenge

The drop in biotech stock market valuations have also pushed down the private equity funding valuations and availability except for pockets of sectors that are in favor. Venture capital firms took big paper losses on their existing ownership positions in private and public biotech/biopharma companies and dramatically slowed funding new companies, except in the hot areas of technology.

Their focus has been on defending their existing portfolio companies to make sure they survive the funding and IPO drought. However, there are signs that investing activity is picking up as venture firms take advantage of lower valuations and because they really cannot stop investing entirely.

With many of the private biotechs running out of money, we will continue to see downsizing announcements on a regular basis. Some biotech companies will not survive and will have to shut down. This down cycle has happened to biotech many times historically, so this is not a new development in the history of the industry.

Peter Young
CEO, Young & Partners
pyoung@youngandpartners.com

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Young & Partners

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