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How Earnout Trends Are Reshaping Life Sciences M&A: Key Considerations for Dealmakers

Key Updates

- Earnouts are accounting for a larger share of potential deal value in life sciences transactions, with more consideration tied to clinical, regulatory and commercial milestones. This shift is also driving more detailed negotiations over post-closing operations and performance expectations.

Why It Matters

- As more deal value depends on post-closing performance, sellers face greater uncertainty over future payments while buyers seek operational flexibility. Misaligned expectations over how milestones will be achieved can put significant deal value at risk and increase the potential for disputes.

Next Steps

- Buyers and sellers should prioritize earnout negotiations early, clearly defining performance milestones and post-closing expectations. Tailored structures can help balance risk, account for partial progress and reduce the likelihood of costly disputes.

Earnouts have become a defining feature of mergers and acquisitions in life sciences, where deal value is often tied to clinical, regulatory and commercial milestones. With nearly half of recent diagnostics and research technology acquisitions and over 90% of biotech and pharmaceutical deals featuring earnouts,¹ understanding their complexities is increasingly critical for biotech executives, founders, investors and deal teams navigating transactions today. As market uncertainty persists, several key earnout trends are shaping how life sciences deals are being structured and negotiated.

Earnouts Are Comprising a Larger Share of Deal Value

More aggressive earnout structures have historically been associated with private equity transactions, though many of these dynamics are increasingly appearing in strategic deals as well. This may reflect broader market pressure around valuation discipline and risk

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allocation across the life sciences sector, rather than trends limited to a single buyer category.

According to *DealForma*, total announced value and average deal size for global health care and life sciences R&D partnerships increased substantially in 2025, while upfront cash and equity commitments grew at a comparatively slower rate² — suggesting parties may be allocating more deal value to contingent, milestone-based payments.

This trend also suggests a more cautious approach by buyers. Rather than fully pricing-in future upside at signing, buyers are deferring value and tying it to performance. In sectors where outcomes depend on regulatory milestones and commercialization success, shifting more of the consideration to the back end of a deal is making earnouts a core component of transaction economics.

Risk Is Shifting More Heavily to Sellers

As earnouts become more back-ended, a greater portion of total deal value is contingent on future outcomes like regulatory approval, development timelines and the ability to reach market. Functionally, this trend also means more risk is shifted to sellers: asking that they stand behind not only the strength of the asset itself, but also a possible pathway to commercialization.

Earnouts are Driving Longer Deals, with More Paid Out Over Time

These same dynamics also have a cascading effect on the negotiation process, deal timelines and post-closing alignment. As a growing portion of deal value becomes paid out over multiyear periods, the economic life of the transaction — and relationship between buyer and seller — extends to well beyond closing. This has led to more granular discussion around post-closing operations and a greater focus on aligning expectations at signing.

For example, as more value is tied to future performance, sellers may place greater emphasis on the decisions that will drive that performance — including asking for more specificity around how the business will actually be operated after closing.

Buyers, on the other hand, may wish to preserve operational flexibility and manage potential payout exposure. As a result, negotiations around earnouts can become more detailed and time-intensive than in prior years, particularly in situations where each party feels they have negotiating leverage.

How Earnouts Can Be More Effective

As earnouts take on a larger role in deal value, they can either reinforce alignment between parties or become a source of friction after closing. The distinction often comes down to how well the structure reflects the realities of the underlying business. In practice, that could mean structures that recognize partial progress — such as pro rata payouts rather than strict cliffs — or mechanisms that account for performance improvements over the earnout period, though the facts and circumstances of each transaction will be determinative.

Ultimately, regardless of each party's respective leverage or position, earnouts function more smoothly when both parties have a shared understanding of how performance will be measured and achieved over time.

The Bottom Line

Earnouts remain a useful tool to bridge valuation gaps in life sciences transactions, but as they represent a larger share of deal value and appear more frequently across both private equity and strategic deals, they inevitably introduce complexity and tension into post-closing relationships.

How that complexity is managed is increasingly determinative of whether an earnout delivers value or becomes a source of conflict. The challenge is no longer simply whether to use an earnout, but how to structure one in a way that appropriately allocates risk, preserves alignment and reflects the practical realities of developing and commercializing life sciences assets over time. By approaching them proactively and negotiating tailored structures, both sellers and buyers can confidently maximize their value while minimizing disputes.

For more information on key considerations in life sciences M&A transactions, contact Craig Circosta or your preferred Polsinelli attorney.

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https://learn.srsacquiom.com/rs/664-KLJ-520/images/2023_SRSAcquiom_Life_Sciences_Study.pdf?version=1

[2] <https://dealforma.com/global-healthcare-and-life-sciences-rd-partnerships-2025-review/>