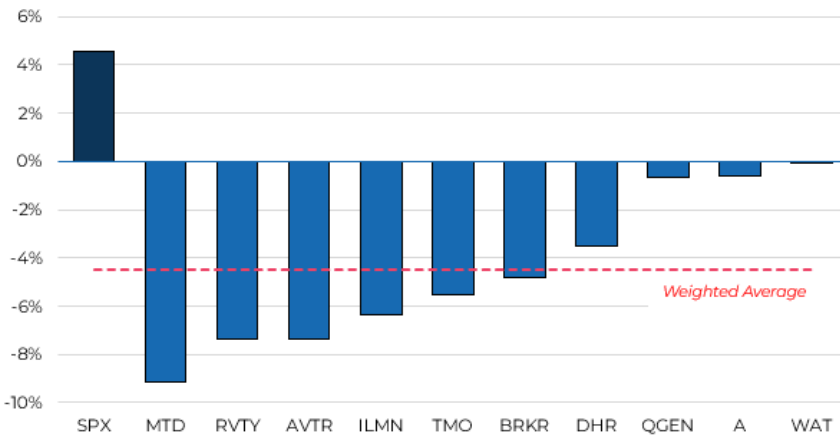


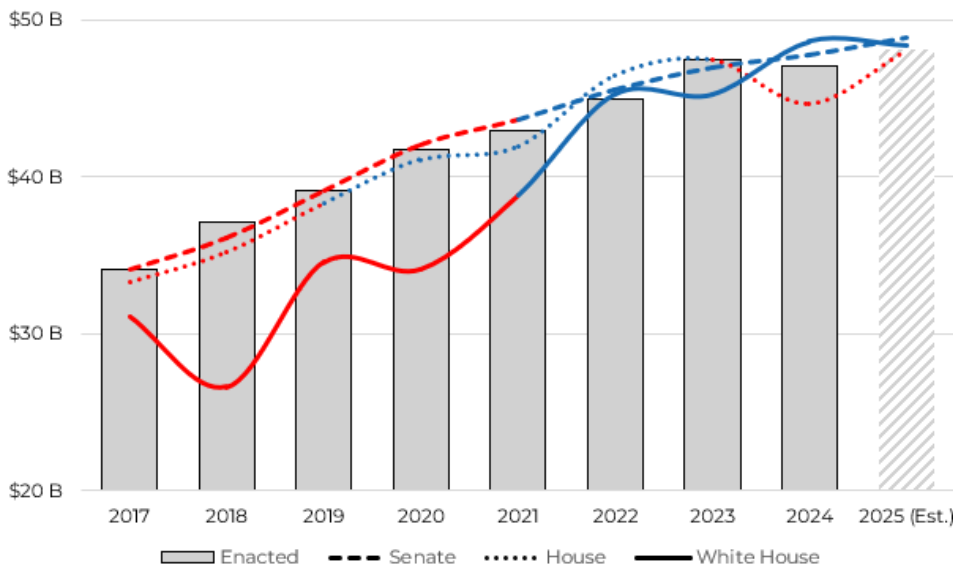
December 3, 2024

Life Science Tools: NIH Cuts in Context

With the life science tools (LST) space still trailing broader market moves following the Nov. 5 election, in part due to investor concerns over NIH funding, we continue to believe that significant budget cuts are unlikely. Investors will recall that despite the Trump White House having proposed meaningful reductions in each of his four years in office, ranging from -7% to -22%, NIH funding was actually *increased* by 3%-9% annually, closely following proposals from the GOP-controlled Senate. That said, flatter YoY adjustments are more probable going forward, but we would expect the Senate to hold the line on draconian budget cut proposals from the administration.

Life Sciences Post-Election Performance


Source: Bloomberg, Capital Policy Partners

NIH Budget By Party in Power


Source: NIH Budget Tracker, Capital Policy Partners

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Mettler-Toledo International Inc (MTD)

Price:	\$1,258.88
52-Week High:	\$1,546.93
52-Week Low:	\$1,068.33

Revvity Inc. (RVTY)

Price:	\$115.00
52-Week High:	\$129.50
52-Week Low:	\$88.62

Avantor Inc (AVTR)

Price:	\$21.00
52-Week High:	\$28.00
52-Week Low:	\$19.59

Illumina Inc (ILMN)

Price:	\$145.17
52-Week High:	\$156.66
52-Week Low:	\$97.36

Thermo Fisher Scientific Inc (TMO)

Price:	\$529.95
52-Week High:	\$627.88
52-Week Low:	\$487.06

Bruker Corporation (BRKR)

Price:	\$57.94
52-Week High:	\$94.86
52-Week Low:	\$48.07

Danaher Corporation (DHR)

Price:	\$241.29
52-Week High:	\$281.70
52-Week Low:	\$215.68

Qiagen NV (QGEN)

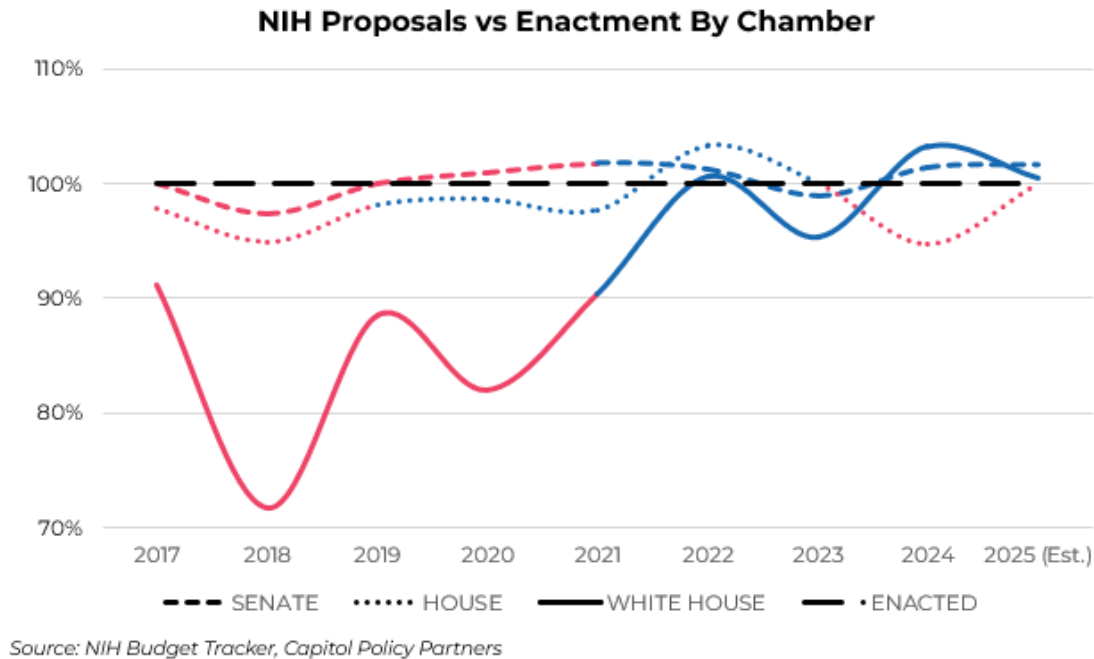
Price:	\$43.86
52-Week High:	\$47.44
52-Week Low:	\$39.03

Bipartisan Support Persists

Despite ongoing efforts by Republicans to implement broader NIH structural reforms [[Senate](#), [House](#)], which would see consolidation of the agency’s 27 Institutes & Centers into 15 and provide additional oversight of grantees, even the GOP-controlled House has called for a ~2% base budget increase for the NIH in FY25, [arguing](#) that it is “necessary to counter China’s growing threat in basic science research.” Meanwhile, the Democratic Senate would [increase](#) the baseline NIH budget by 3.8%.

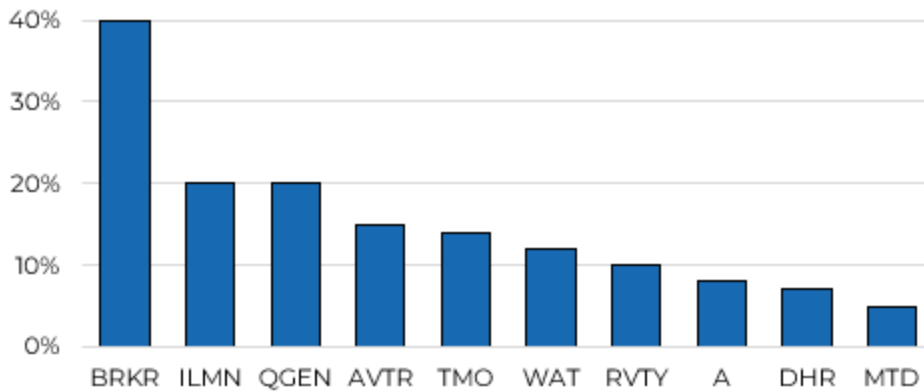
As of today, the working assumption is that Republicans will push to kick broader budget discussions into 1Q25, when they will control both chambers of Congress, but we should note that just three of 14 GOP senators on the Appropriations Committee had opposed that chambers funding bill, with the remaining 11 – combined with all 15 Democrats – in support. In other words, 26 of 29 members (90%) support a 3.8% increase for FY25. This includes next year’s presumptive Chair Sen. Susan Collins (R-ME), who [remarked](#) last week that her “priorities [as Chair] will remain...funding biomedical research to save and improve lives.”

We view this as meaningful insofar as it is historically the Senate, more so than the House and to a far greater extent than the President / White House, that drives the ultimate level of NIH investments. As shown in the above chart, and more clearly below, Senate appropriations bills have historically been within ~1% (on average) of what is ultimately enacted, whereas the House average is 2.5%, both of which compare to a 9.5% delta for the White House budget submission that starts this process.

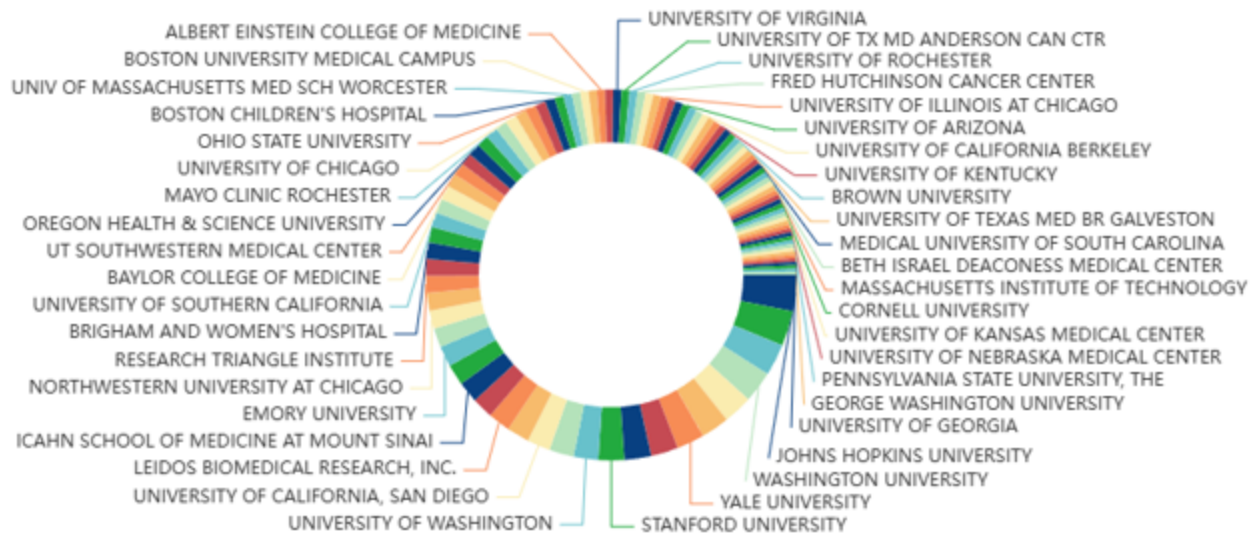


It is similarly worth keeping in mind that 83% of the NIH budget has historically been spent on outside research grant / contracts, with another 11% going to NIH-specific research programs, for a total of 94% devoted to research spending. Of that amount, roughly 75% is allocated towards direct research costs (e.g., equipment, supplies, researcher salaries), with the remainder intended for more indirect facilities & administrative (F&A) costs. As shown in the NIH’s RePORT [database](#), the vast majority of this is provided through grants to academic institutions, where companies have varying degrees of exposure.

Academic & Government Exposure



Source: Company Filings, Capital Policy Partners



Source: National Institutes of Health (NIH)

Purchasing Power Improvements

Part of the motivation for NIH budget increases – which have averaged 5.2% annually since 2017 – is to help counter previous *underinvestment* relative to escalating research costs, as measured by the [Biomedical Research & Development Price Index \(BRDPI\)](#).

As outlined in a recent [report](#) by the Congressional Research Service (CRS), “the purchasing power of NIH funding initially peaked in FY2003 and then declined fairly steadily for more than a decade until consecutive funding increases were provided in each of FY2016 through FY2023.” This becomes readily apparent if we hold NIH funding constant at 2023 dollars to reflect agency purchasing power, with each year’s allocation colored to reflect the majority party in the Senate.

NIH Budget: Constant Purchasing Power



Source: CRS, Capitol Policy Partners

As shown above, much of the previous shortfall in purchasing power has been overcome, negating the need for the ~5% annual increases to which investors have become accustomed in recent years. That being said, major declines are also unlikely, irrespective of likely White House requests, given what has been longstanding support across both parties since the FY15 nadir, with gains we suspect lawmakers are unlikely to abandon.

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