

GLOBAL CORPORATE REAL ESTATE ADVISORS

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SEPTEMBER 2016

INDUSTRY NEWSLETTER

LIFE SCIENCES



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OVERVIEW

Companies in this industry conduct research or apply research findings to develop new products or processes in a variety of fields, including life sciences, engineering, social sciences, and the humanities. Major companies include Argonne National Laboratory, Battelle Memorial Institute, the Charles Stark Draper Laboratory, and Quintiles (all based in the U.S.), as well as AKKA Technologies (France) and Qinetiq Group (U.K.).

Global spending on research & development, a demand driver for scientific research services, is about \$1.9 trillion. The U.S. scientific research and development services industry includes about 18,000 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about \$130 billion.

UPDATES

Despite current economic, political, technological and social challenges, life sciences companies worldwide should see enough long-term growth opportunities to feel cautiously optimistic about 2016, according to Deloitte. The major trends that we expect will capture the U.S. industry's attention in the coming year include operating performance within an evolving regulatory and risk environment, ongoing pricing and cost pressures, and adoption of new business models enabled by scientific and technology advances.

Cost pressure, is likely to lead life sciences companies to assess the value of their initiatives from a selling, general



and administrative (SG&A) perspective. Plus, M&A and divestiture strategies will likely remain a dominant force in the coming year. A certain degree of asset restructuring may also occur as a result of current regulatory guidance on base erosion and profit (BEPS) shifting. Patient-centric care models may have the greatest impact to life sciences companies, affecting the entire value chain from R&D through treatment delivery. As an aging population and the proliferation of chronic diseases drive continued patient demand for targeted therapies amid reform-driven drug price controls, life sciences companies will want to find a balance between innovation and efficiency.

TRENDS

U.S. corporate profits, which is an indicator of corporate investment in research and development, fell 5.8% in the first quarter of 2016 compared to the same period in 2015.

Total U.S. revenue for scientific research and development services rose 6.3% in the first quarter of 2016 compared to the previous year.

Collaboration among scientists across disciplines and even across international borders is on the rise. One indication is the growing number of coauthored papers by an international cohort of authors. In 1988, only 8% of science and engineering papers were coauthored by an international team; by 2012 that number reached more than 25% worldwide, according to the National Science Foundation.

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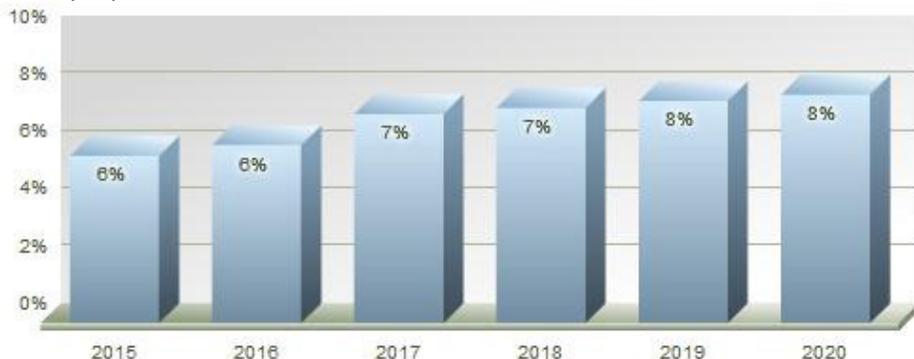
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Industry Output Forecast



Revenue (in current dollars) for U.S. architectural services is forecasted to grow at an annual compounded rate of 8% between 2016 and 2020.

This trend of collaboration has given rise to an increasing need for scientists to take an interdisciplinary approach to research by acquiring communication and problem-solving skills, according to the Organization for Economic Co-operation and Development (OECD).

The top fields driving R&D over the next several years are nanotech, renewable energy, and cloud computing, according to Battelle and R&D Magazine. Another field that is gaining more research activity is health care, especially in diagnostics, and robotics. With the growing popularity among consumers for cloud-based computing and the changes in health care laws in the U.S., the research in this field will likely be applied research for the development of new products.

The shift of R&D from the U.S. and Europe to Asia, and particularly China, has come about as a result of a wave of market liberalization that began in the 1990s, according to the National Science Foundation. China's share of world research spending could surpass that of the U.S. by 2022, according to R&D Magazine. Other Asian nations, including India, are showing solid growth as well. R&D is seen as essential for developing nations to "catch up" to the U.S. and benefit from science and technology.

CHALLENGES

Due to the emphasis the U.S. and other governments place on basic and applied research, research & development companies are highly dependent upon government contracts. That makes companies more vulnerable to economic downturns. In the U.S., government funding for research is threatened by pressure to pare down spending, including aerospace and defense budgets, according to R&D Magazine. Despite mitigating effects of the 2009 American Recovery and Reinvestment Act, federal R&D funding declined each year between 2010 and 2013, according to the National Science Foundation.

Declining math and science scores for high school students in the U.S. worries some science experts, since science, technology, engineering and math (STEM) education is crucial to developing the next generation of researchers. The need for a STEM-literate population is largely an economic one, since technology and science research drives growth. The Obama administration is working with the private sector to fund programs that increase the number of math and science teachers and boost STEM curricula.

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OPPORTUNITIES

Renewable energy and energy independence have become important topics in the national conversation about energy resources and are driving R&D opportunities in this sector. A national energy policy that includes sustainable energy sources will require basic and applied R&D in order to bring products to the marketplace. Such products include energy storage (charging stations for electric vehicles, storage for solar and wind-generated energy) as well as developing smart grids. Companies with expertise in this sector can benefit from the attention citizens and the government are bringing to the topic.

Health care IT, medical device development, and telemedicine are examples of the increasing incorporation of technology into medicine. The demand for health care technology will continue to grow. The demand in the U.S. is driven by health care reform and the American Recovery and Reinvestment Act, which calls for federal funding of health care IT. It is also being driven by demand in developing nations for better medical care. Research in this sector could be a game changer, according to experts, and could bring about positive benefits to society.

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Mohr Partners, Inc. is a global corporate real estate firm offering tenant advisory and consulting services. Mohr Partners has 20 offices in North America, providing corporate tenants with portfolio services including strategic planning, portfolio and lease administration, research and site selection, project and construction management, comprehensive demographic analysis, and economic incentive negotiation. Since 1986, Mohr Partners has been managing real estate portfolios for corporations in all 50 U.S. states, all Canadian provinces, and many locations around the world through its strategic alliance partners.

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