



Pharmaceutical Industry Profits Exceed Industry's Self-Reported R&D Costs¹

By Rick Claypool, a Public Citizen research director

March 31, 2017 – For many Americans, prescription drugs are unaffordable.² Too often, families are forced to choose between filling potentially life-saving prescriptions and meeting other basic needs. Despite an overwhelming majority of Americans who favor government action to ensure the affordability of prescription drugs,³ congressional efforts to bring down drug prices have been stymied. Pharmaceutical corporations, which collectively spent more than \$150 million lobbying Congress in 2016,⁴ aggressively oppose such reforms.

The pharmaceutical industry alleges that high drug prices are unavoidable given the expense of research and development (R&D) to bring new medicines to market. Following a meeting with President Trump, for example, Pfizer CEO Ian Read asserted, “What you’re paying for is all of the clinical trials, all of that knowledge, all of that experimentation which tells you that pill will do what it will do. The pill is irrelevant.”⁵

Table 1: Profits of the twenty largest pharmaceutical corporations compared to industry-reported research and development (R&D) costs⁶

	Pharmaceutical Industry Profits	R&D Costs	Profits as a %age of R&D costs
2015	\$124,789,091,000	\$93,061,600,000	134%
2014	\$100,648,752,000	\$87,968,700,000	114%
2013	\$101,280,536,000	\$84,537,400,000	120%

When Turing and Valeant were under fire for raising prices, the industry lobbying group Pharmaceutical Research and Manufacturers of America (PhRMA), of which neither Turing nor Valeant are members, sought to deflect criticism of the industry writ large through

¹ An earlier version of this report based its findings on Pharmaceutical Research and Manufacturers of America (PhRMA) data, which excluded “R&D performed abroad by the foreign divisions of foreign-owned PhRMA member companies,” resulting in a profits-to-cost ratio that was based on incomplete data. This updated report sources the R&D cost data from each corporation’s separate 10-K or 20-Q disclosures to the U.S. Securities and Exchange Commission, available via <https://www.sec.gov/edgar.shtml>, or annual reports, and includes all R&D spending by foreign firms.

² Marc-Andre Gagnon, Ph.D., and Sidney Wolfe, M.D. “Mirror, Mirror on the Wall: Medicare Part D pays needlessly high brand-name drug prices compared with other OECD countries and with U.S. government programs.” Policy brief by Carleton University School of Public Policy and Administration and Public Citizen, July 23, 2015, <http://www.citizen.org/documents/2269a.pdf>

³ “Public Support for Prescription Drug Price Reform,” Lake Research Partners, September 2016, <http://www.lakeresearch.com/images/share/LRP.PublicOpiniononPrescriptionDrugPricing.pdf>

⁴ Pharmaceutical industry lobbying and political spending data via the Center for Responsive Politics, OpenSecrets.org, <https://www.opensecrets.org/lobby/induscode.php?id=H4300>

⁵ Damian Garde, “Pfizer CEO: When it comes to drugs, Europe is ‘free-riding’ and committing ‘blackmail,’” STAT News (March 23, 2017), <https://www.statnews.com/2017/03/23/pfizer-ceo-drugs-europe-blackmail/>

⁶ See Table 2 for a company-by-company breakdown of pharmaceutical corporation profits and Table 3 for a company-by-company breakdown of reported R&D costs.

communications that emphasized R&D spending. On PhRMA's Twitter, the group posted messages such as, "Unlike Valeant and Turing, innovative biopharma companies have #research at the core," and "The biopharma industry spends more on R&D than the entire NIH operating budget."⁷ PhRMA's messaging that emphasizes how much the industry spends to develop new drugs has for decades been drug corporations' central trope, and is even reflected in the trade association's name: Pharmaceutical Research and Manufacturers of America (PhRMA), replacing the traditional Pharmaceutical Manufacturers Association (PMA).

Table 2: Profits for the twenty largest pharmaceutical corporations⁸

Company	2015 Profits	2014 Profits	2013 Profits
Abbott Laboratories	\$4,423,000,000	\$2,284,000,000	\$2,576,000,000
Abbvie	\$5,144,000,000	\$1,774,000,000	\$4,128,000,000
Allergan	\$3,915,200,000	-\$1,630,500,000	-\$750,400,000
Amgen	\$6,940,000,000	\$5,160,000,000	\$5,080,000,000
AstraZeneca	\$2,826,000,000	\$1,235,000,000	\$2,571,000,000
Biogen	\$3,547,000,000	\$2,934,800,000	\$1,862,300,000
Bristol Myers Squibb	\$1,565,000,000	\$2,004,000,000	\$2,563,000,000
Celgene	\$1,602,000,000	\$1,999,900,000	\$1,449,900,000
Eli Lilly	\$2,408,400,000	\$2,390,500,000	\$4,684,800,000
Gilead Sciences	\$18,108,000,000	\$12,101,000,000	\$3,075,000,000
GlaxoSmithKline	\$12,477,800,000	\$4,297,000,000	\$8,973,300,000
Johnson & Johnson	\$15,410,000,000	\$16,320,000,000	\$13,830,000,000
Merck	\$4,442,000,000	\$11,920,000,000	\$4,404,000,000
Novartis	\$17,794,000,000	\$10,280,000,000	\$9,292,000,000
Novo Nordisk	-\$17,209,000	\$4,652,000	-\$21,564,000
Pfizer	\$6,960,000,000	\$9,135,000,000	\$22,003,000,000
Roche	\$11,295,500,000	\$9,438,100,000	\$9,986,400,000
Sanofi	\$4,657,000,000	\$5,312,000,000	\$5,121,000,000
Teva Pharmaceutical	\$1,583,400,000	\$2,808,300,000	\$1,318,900,000
Valeant	-\$292,000,000	\$881,000,000	-\$866,100,000
AVERAGE	\$5,756,794,263.16	\$5,032,437,600	\$5,064,026,800
TOTAL	\$124,789,091,000	\$100,648,752,000	\$101,280,536,000

⁷ Sarah Ferris, "Facing bipartisan attack, PhRMA goes on offensive," The Hill (Nov. 4, 2015) <http://thehill.com/policy/healthcare/259050-facing-bipartisan-attacks-phrma-goes-on-offensive>

⁸ List includes top 20 pharmaceutical corporations by assets according to the Financial Times' annual FT500 reports, available at <https://www.ft.com/ft500>. See endnotes for profits data sources. Where disclosures were unavailable in U.S. Dollars or an equivalent currency (as was the case for GlaxoSmithKline, whose profits are reported in British Pounds, Roche, whose profits are reported in Swiss Francs, and Teva Pharmaceutical, whose profits are reported in Israeli Shekels), the amount was converted into the value of U.S. Dollars on December 31 of the year reflected in the disclosure and rounded to the nearest hundred thousand dollars.

Given its political emphasis on the importance of R&D, drug corporations have an incentive to inflate research expenditure reports, and industry R&D claims have been criticized for including marketing related studies,⁹ not accounting for tax subsidies¹⁰ and being over-weighted on less-important me-too investments.¹¹

Table 3: R&D spending by the twenty largest pharmaceutical corporations¹²

Corporation	2015 R&D	2014 R&D	2013 R&D
Abbott Laboratories	\$1,405,000,000	\$1,345,000,000	\$1,371,000,000
Abbvie	\$4,300,000,000	\$3,300,000,000	\$2,900,000,000
Allergan	\$2,358,500,000	\$605,700,000	\$191,300,000
Amgen	\$4,100,000,000	\$4,300,000,000	\$4,100,000,000
AstraZeneca	\$5,997,000,000	\$5,579,000,000	\$4,821,000,000
Biogen	\$2,012,800,000	\$1,893,400,000	\$1,444,100,000
Bristol Myers Squibb	\$5,900,000,000	\$4,500,000,000	\$3,700,000,000
Celgene	\$3,697,000,000	\$2,431,000,000	\$2,226,000,000
Eli Lilly	\$4,796,400,000	\$4,733,600,000	\$5,531,300,000
Gilead Sciences	\$3,014,000,000	\$2,854,000,000	\$2,120,000,000
GlaxoSmithKline	\$5,255,760,653	\$5,377,300,000	\$6,502,000,000
Johnson & Johnson	\$9,000,000,000	\$8,500,000,000	\$8,200,000,000
Merck	\$6,700,000,000	\$7,200,000,000	\$7,500,000,000
Novartis	\$8,900,000,000	\$9,100,000,000	\$9,100,000,000
Novo Nordisk	\$1,994,200,000	\$2,247,700,000	\$1,916,300,000
Pfizer	\$7,700,000,000	\$8,400,000,000	\$6,700,000,000
Roche	\$9,333,800,000	\$8,977,000,000	\$9,768,100,000
Sanofi	\$5,750,200,000	\$5,867,000,000	\$5,801,300,000
Teva Pharmaceutical	\$513,000,000	\$512,000,000	\$488,000,000
Valeant	\$334,000,000	\$246,000,000	\$157,000,000
TOTAL	\$93,061,600,000	\$87,968,700,000	\$84,537,400,000

⁹ Gagnon M-A, Lexchin J (2008) The Cost of Pushing Pills: A New Estimate of Pharmaceutical Promotion Expenditures in the United States. PLoS Med 5(1): <http://dx.doi.org/10.1371/journal.pmed.0050001>

¹⁰ Donald W. Light and Rebecca Warbuton, "Demythologizing the high costs of pharmaceutical research," BioSocieties 6(1) · March 2011, <https://assets.documentcloud.org/documents/81465/col-drugcosts-new-study.pdf>

¹¹ Hubbard T, Love J (2004) A New Trade Framework for Global Healthcare R&D. PLoS Biol 2(2): e52, <http://journals.plos.org/plosbiology/article?id=10.1371/journal.pbio.0020052>

¹² List includes top 20 pharmaceutical corporations by assets according to the Financial Times' annual FT500 reports, available at <https://www.ft.com/ft500>. R&D spending reported through annual reports and/or 10-K and 20-Q filings on file with the author available via the U.S. Securities and Exchange Commission from <https://www.sec.gov/edgar.shtml>. Where disclosures were unavailable in U.S. Dollars (as was the case for GlaxoSmithKline, Novo Nordisk, Roche and Sanofi, whose R&D spending is reported in British Pounds, Danish Kroner, Swiss Francs and Euros, respectively), the amounts were converted into the value of U.S. Dollars on December 31 of the year reflected in the disclosure and rounded to the nearest hundred thousand dollars.

Nevertheless, even the R&D cost estimates self-reported by the industry are dwarfed by the industry's profits. The pattern of drug corporation super-profits greatly exceeding industry spending on R&D undermines industry claims that R&D expenses justify the high prices that pose enormous hardship on consumers, lead to rationing of treatment and burden the national economy.

Sources for Profits Data in Table 2:

Johnson & Johnson	http://www.marketwatch.com/investing/stock/JNJ/financials
Novartis	http://www.nasdaq.com/symbol/nvs/financials
Roche	http://www.marketwatch.com/investing/stock/RHHBY/financials
Pfizer	http://www.nasdaq.com/symbol/pfe/financials
Merck	http://www.nasdaq.com/symbol/mrk/financials
Gilead Sciences	http://www.nasdaq.com/symbol/gild/financials
Sanofi	http://www.nasdaq.com/symbol/sny/financials
Amgen	http://www.marketwatch.com/investing/stock/AMGN/financials
Allergan	http://www.marketwatch.com/investing/stock/AGN/financials
Novo Nordisk	http://www.nasdaq.com/symbol/nvo/financials
GlaxoSmithKline	http://www.marketwatch.com/investing/stock/GSK/financials
Bristol Myers Squibb	http://www.nasdaq.com/symbol/bmy/financials
Biogen	http://www.nasdaq.com/symbol/biib/financials
Abbvie	http://www.nasdaq.com/symbol/abbv/financials
Celgene	http://www.nasdaq.com/symbol/celg/financials
AstraZeneca	http://www.nasdaq.com/symbol/azn/financials
Eli Lilly	http://www.nasdaq.com/symbol/lly/financials
Abbott Laboratories	http://www.nasdaq.com/symbol/abt/financials?query=income-statement
Valeant	http://www.nasdaq.com/symbol/vrx/financials
Teva Pharmaceutical	http://www.marketwatch.com/investing/stock/TEVA/financials