

Profitability in the global pharmaceutical industry: a contested space

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OBJECTIVES

- > The profitability of the international pharmaceutical industry has been a contentious issue for decades
- > Examine current public data on pharmaceutical industry profitability and provides comparison against other industries



METHODOLOGY

- > Analysed data published annually between 2004 – 2022 by the European Commission as part of **its Industrial R&D Investment Scoreboard**.
- > Company-level commercial and financial data on the top **2,500 global companies** as ranked by R&D spending.
- > Metrics for individual companies include: R&D spend, revenue and profitability – the latter expressed in both absolute terms and as **operating profit as a share of total revenue**



RESULTS

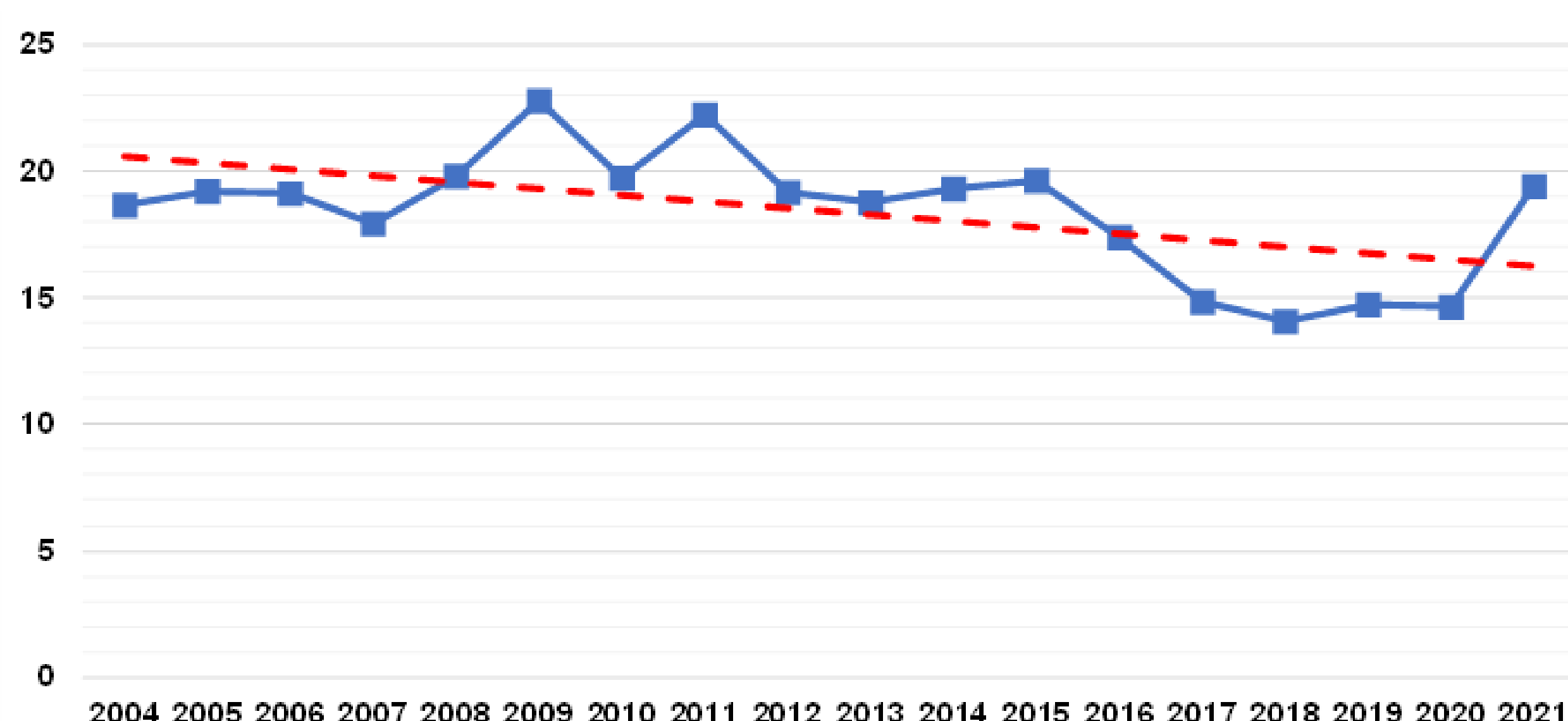
I. Pharmaceutical company profitability **varies considerably**

Table 1: Company-level profitability within the Pharmaceutical and Biotechnology Industry (2021)

	Positive profits	Negative profits
Number of companies	220	186
Average profitability	21%	-20,064%

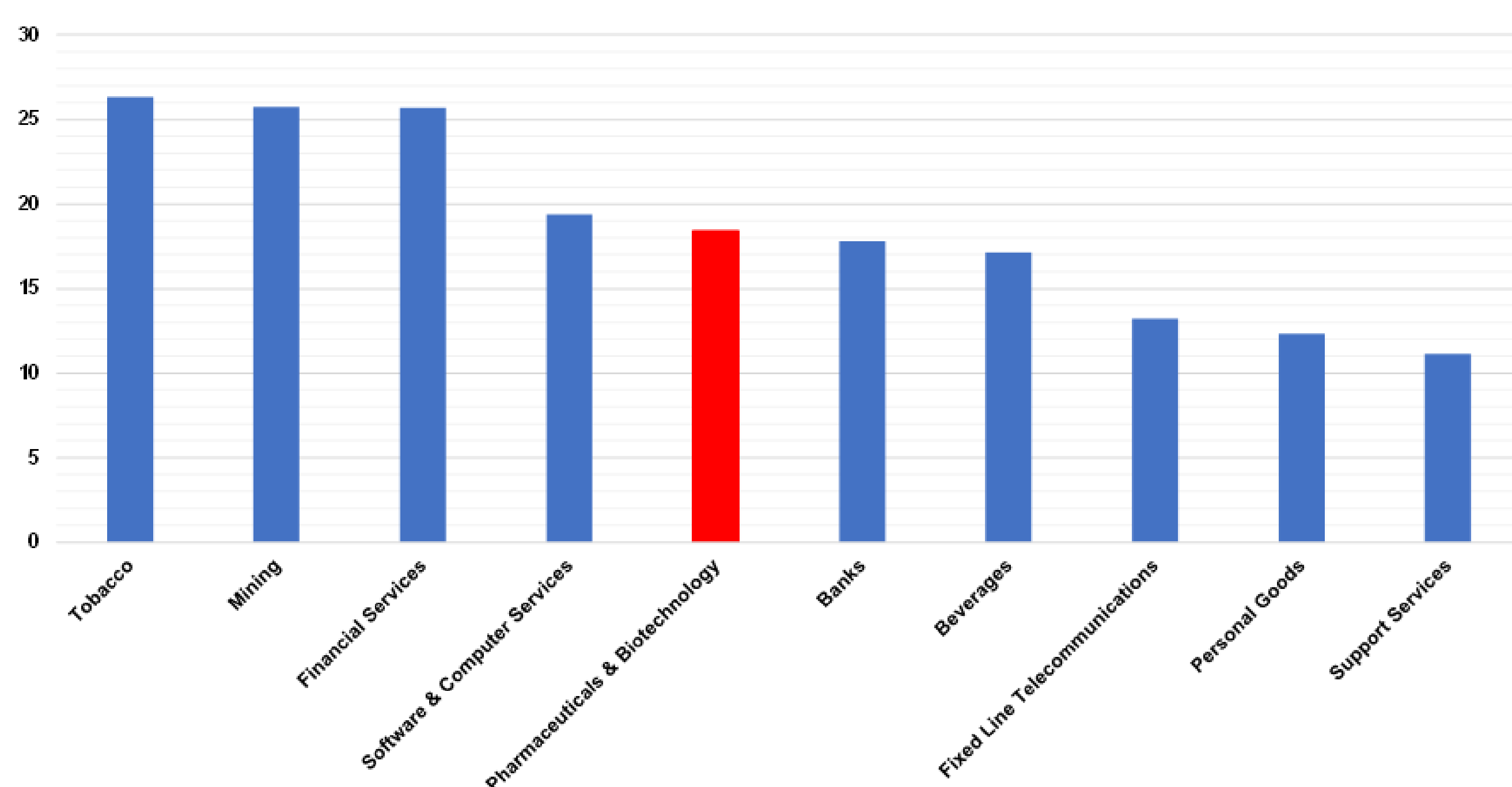
II. Long-term pharmaceutical profitability is **falling**

Figure 1: Average profitability for the Pharmaceutical and Biotechnology Sectors (2004-2021)



III. The pharmaceutical industry is **not the most profitable in the world**

Figure 3: Comparing Average Profitability Across All Years (2004 – 2021)



IV. The pharmaceutical industry **maintained R&D investment** despite falling profitability.

Figure 5: Weighted Profitability vs. Weighted R&D Intensity in the Pharmaceutical and Biotechnology Industry (2004 – 2021)

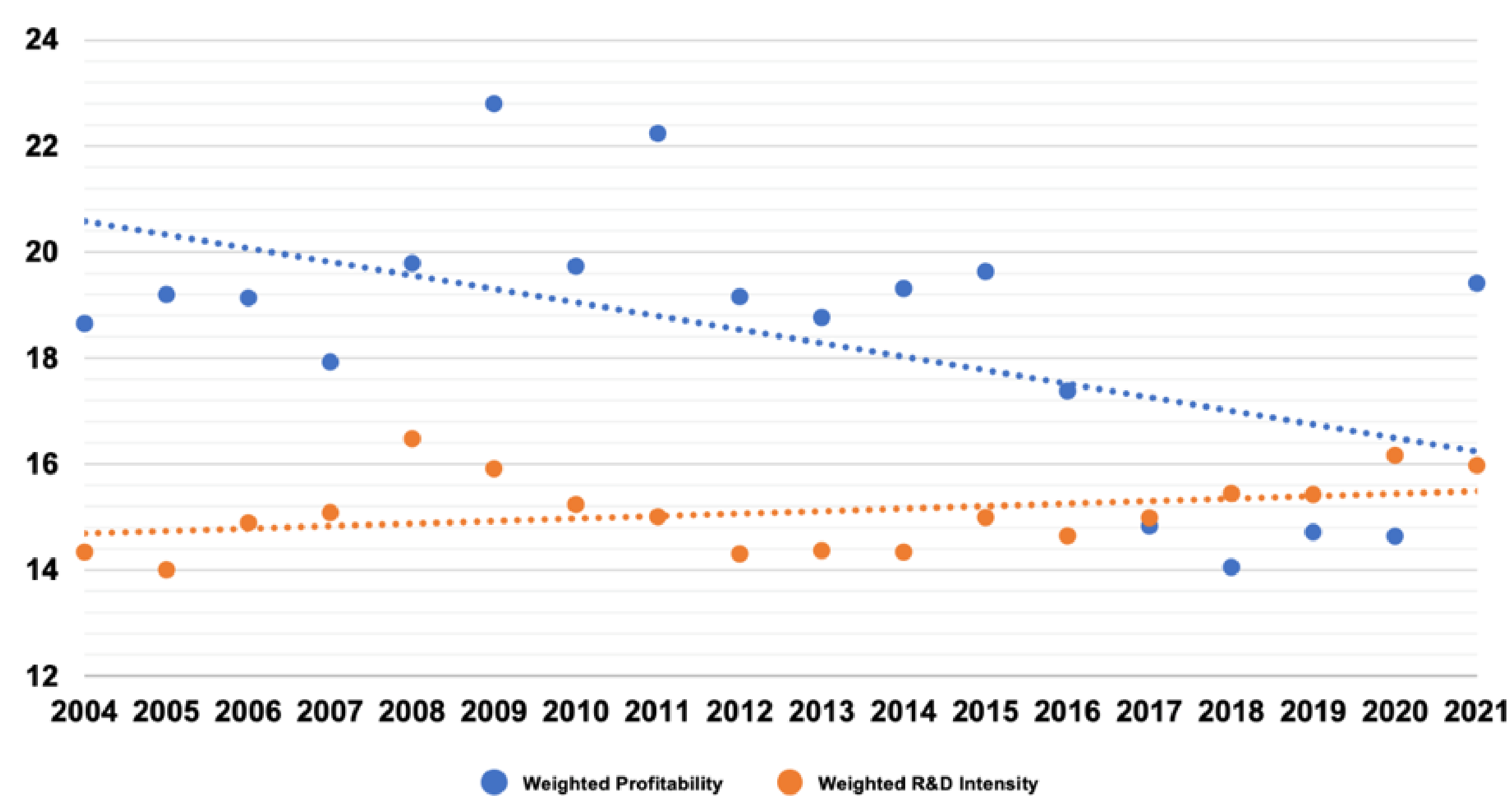
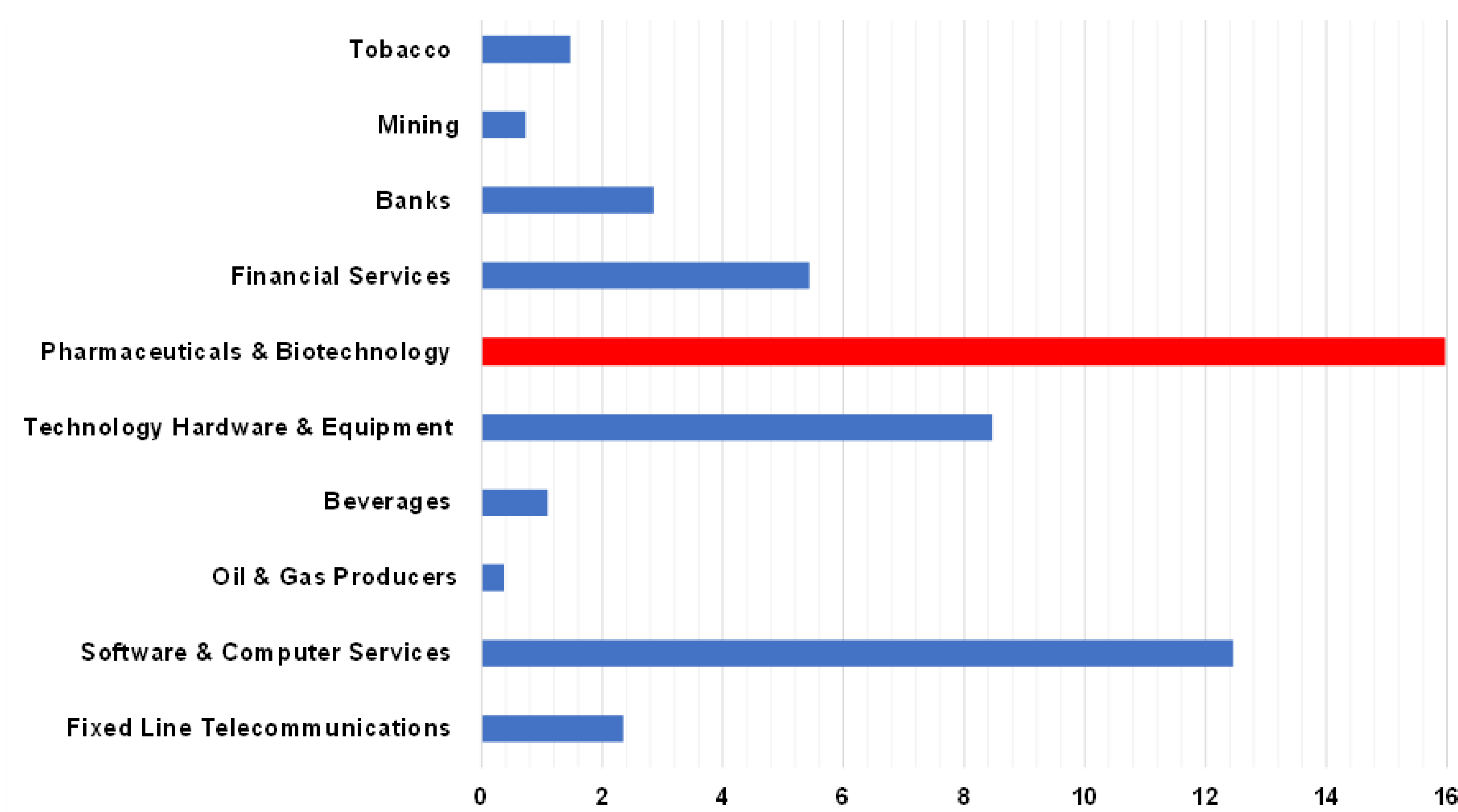


Figure 6: Weighted R&D Intensity of the 10 Most Profitable Industries (2021)



Sources for all figures: Authors' analysis from EC Industrial R&D Investment Scoreboard
 Note: Profitability expressed as net profit as a share of total revenue. Dashed red line represents linear trend line calculated in Microsoft Excel



CONCLUSION

- > Defining and measuring pharmaceutical profits is a complex matter => many reasons why profits earned by pharmaceutical companies will always be under public scrutiny
- > Various metrics have been proposed, including gross profit, net profit and profit as a share of either revenue or R&D spend. Others have argued that financial returns, rather than profit margins, is a better barometer of an industry's financial health
- > We use a measure of profitability that is both easily understood and used in health circles worldwide, thereby offering a new perspective on measuring pharmaceutical profitability, its evolution since 2004 and how it compares to other sectors



SOME REFERENCES