

Global Pill-Age: Pharmaceuticals Making a Killing

Ver. 1.2
September 30, 2016

Prepared by the Institute for Health and Socio-Economic Policy

The Institute for Health & Socio-Economic Policy (IHSP) is a non-profit policy and research group and is the exclusive research arm of the California Nurses Association/National Nurses United. The IHSP focus is current political/economic policy analysis in health care and other Industries and the constructive engagement of alternative policies with international, national, state and local bodies to enhance promote and defend the quality of life for all.

The Health Care Advisory Board is comprised of scholars and policy activists from the Albert Einstein College of Medicine, Boston University, Harvard University, the Canadian National Federation of Nurses' Unions, the New School New York and the University of California.

SUMMARY

→ Sales of pharmaceuticals have reached astronomical levels over the last 20 years

- U.S. based drug companies made over \$4 trillion in sales
- Worldwide, sales for just the top 50 most profitable drug companies reached \$10.8 trillion

→ With high pharmaceutical sales, comes high profit

- U.S. based drug companies made over \$660 billion in profit from 1995-2015
- The top 50 most profitable drug companies reached \$1.6 trillion in profits

→ Pharmaceutical profit margins ranked among the highest

- The only major industries surpassing pharma were the banks and the tobacco industry

→ Pharmaceutical profit benefits Wall Street at the cost to the rest of society

- 8 of the top 10 most profitable pharmaceutical companies gave out dividends
- For 4 of the top 10 companies, over 90% of profit went to dividends
- Wall Street investment firms own the majority of shares, and thus receive the most dividends

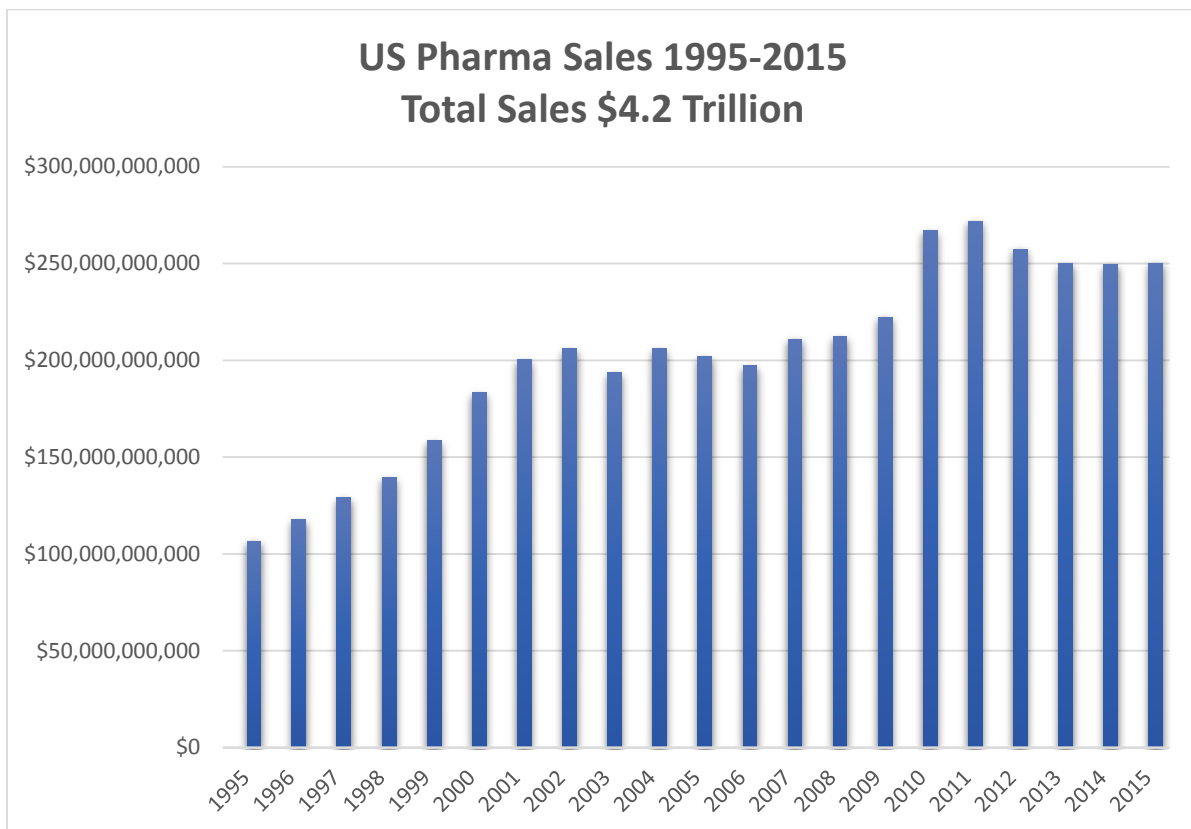
→ Pharmaceutical profit are concentrated in a handful of companies

- 7 Companies have been in the top 20 in profits every year for the last 20 years
- 10 other companies have been in the top 20 in profits at least 15 out of 20 years

Global Pill-Age;
Pharmaceuticals Making A Killing

The first briefing paper, Tough Pill to Swallow – The High Price of Prescription Drugs in the US, showed that drug prices have been rising steadily and are far more expensive than in other countries.¹ The most common argument for the price of drugs costing more in this country is that the United States is subsidizing the research and development of these drugs for the entire world. Contrary to what the pharmaceutical industry would have us believe, the Americans are not subsidizing drug development for the rest of the world, but rather subsidizing exorbitant profits that benefit the very few. In this brief, we will discuss the sales and profits of drug companies. If drug companies are indeed spending so much on research and development, then they should not be realizing much, if any, profit. The truth is, not only are these drug companies making a profit, but to call that profit substantial would be a misnomer at best. Exorbitant would be a much more accurate description.

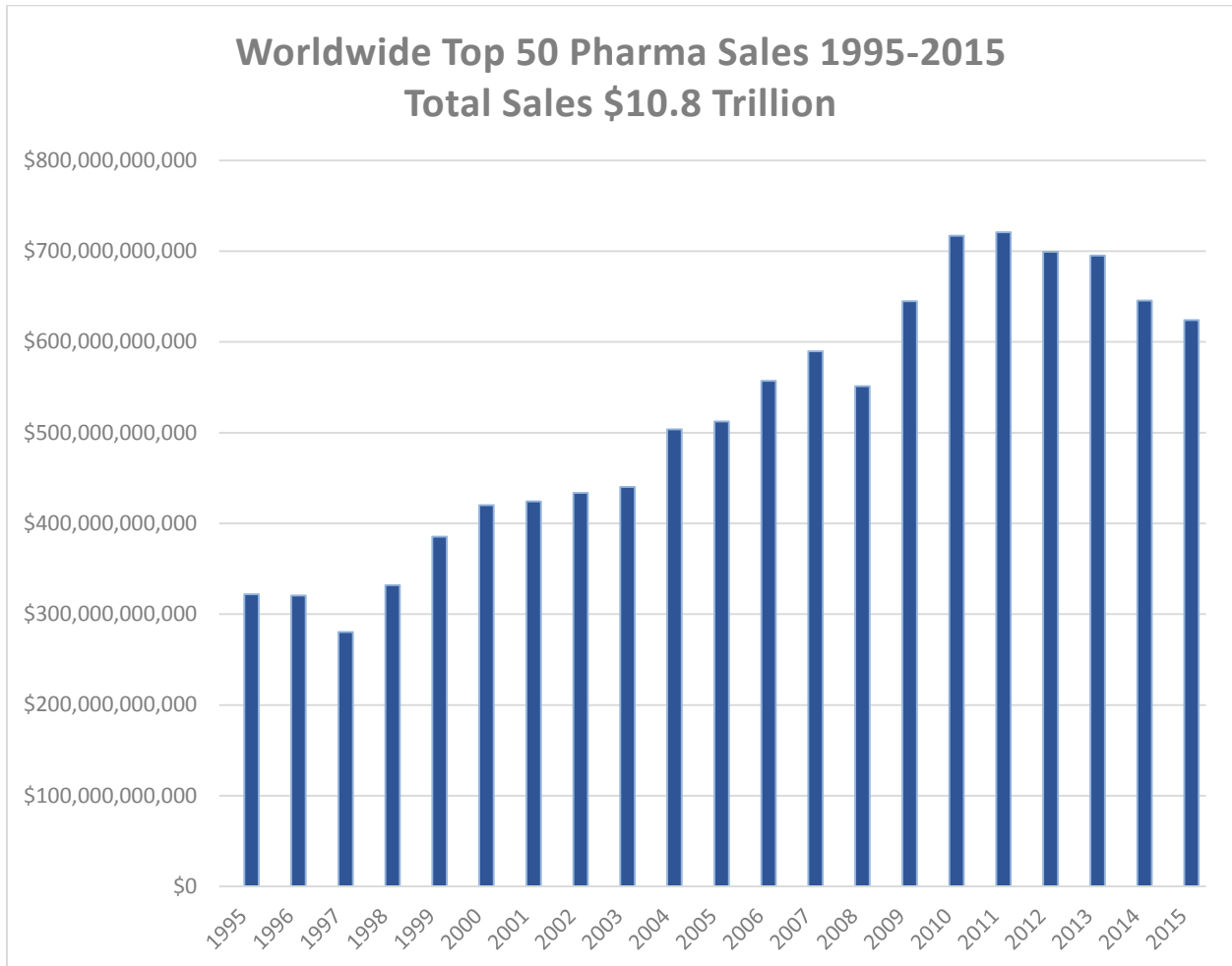
Pharmaceutical sales in the U.S. have been climbing at a steady pace for the last 20 years. Combined, these companies have made over \$4 trillion² in sales over that time period.



¹ Tough Pill to Swallow – The High Price of Prescription Drugs in the US, September 2016, [Tough Pill to Swallow – The High Price of Prescription Drugs in the US](#)

² Thompson Financials, adjusted for inflation

As outrageous as this may seem, these numbers are just from U.S. based companies. Companies based in other countries also sell their drugs to U.S. customers at inflated prices when compared to the prices at which they sell them to the rest of the world.³ As a result, to get a realistic picture there is a need to look at worldwide sales. Worldwide, the top 50 pharmaceutical companies alone combined for over \$10.8 trillion⁴ in sales in the same period.



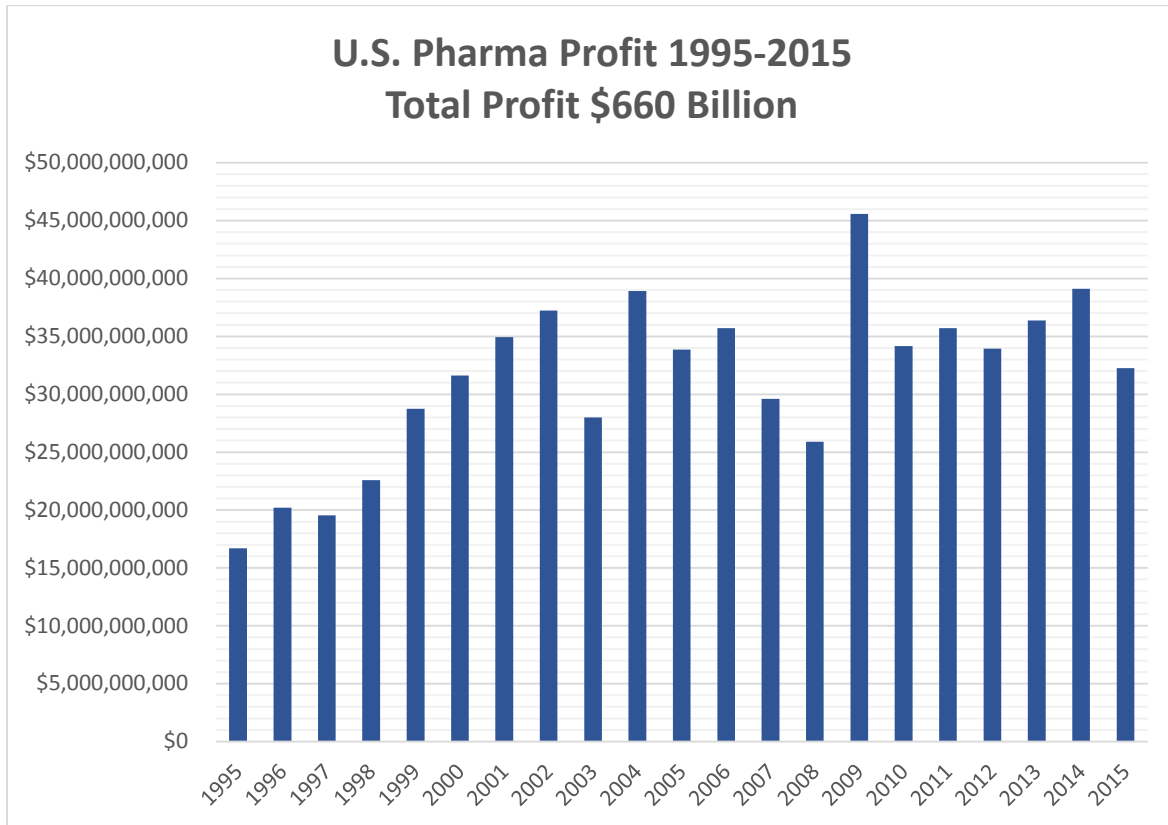
Profit is often confused with sales revenue. In fact, profit is defined as the excess of revenue over expenditure in a transaction or series of transactions.⁵ That means profit is money after all of the other expenses are paid. Such expenses would include, but are not limited to, sales and marketing; executive compensation; all employee wages, benefits and health insurance; lobbying; and of course the often mentioned Research and Development. What we must take into consideration when discussing profits is that, even though they are often celebrated as beneficial in a market-based economy, profits are actually a direct cost to the greater society as a whole. Below are the profits from the last 20 years

³ What's Overlooked in the Daraprim Controversy, Express Scripts September 23, 2015, <http://lab.express-scripts.com/lab/insights/drug-options/whats-overlooked-in-the-daraprim-controversy>

⁴ Thompson Financials, adjusted for inflation

⁵ Merriam-Webster Dictionary.

for the U.S. based pharmaceutical industry alone. Combined, profits were \$660 Billion⁶. Not only are the pharmaceutical industry profits higher than any other industry within the healthcare sector, but nearly as much as the rest of the publicly traded healthcare companies combined.⁷



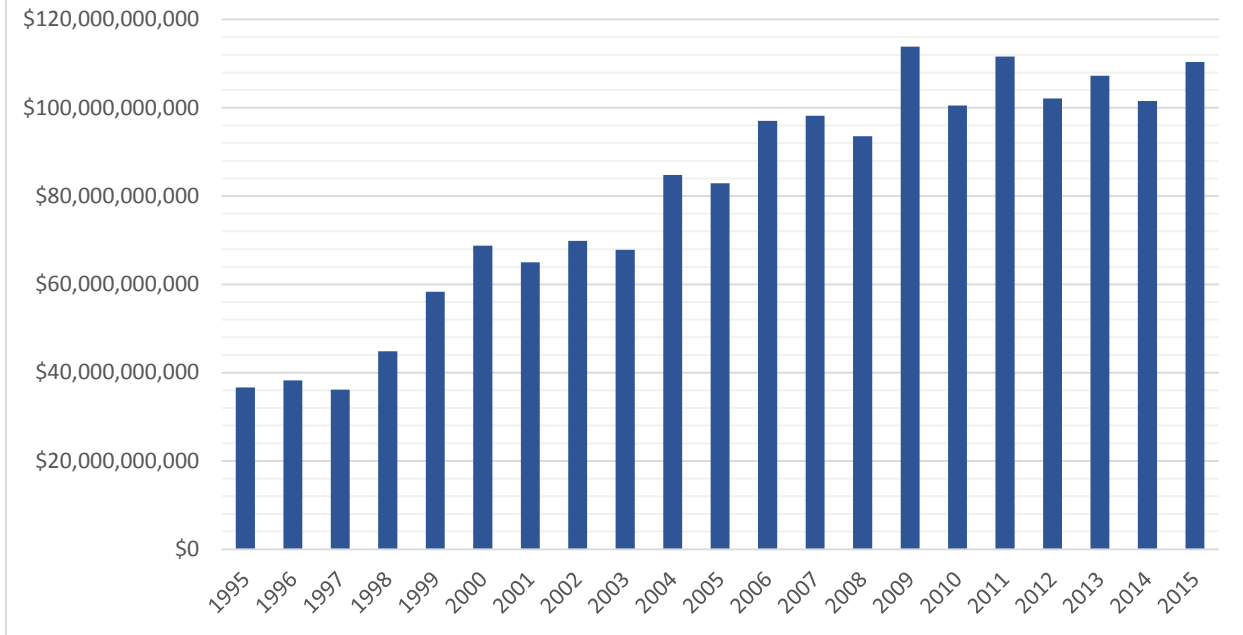
Worldwide, just the top 50 pharmaceutical companies made over \$1.6 Trillion⁸ in the same period. That amounts to an increase of over 300% in the last 20 years.

⁶ Thomson Financials, adjusted for inflation

⁷ Publicly traded industries within the healthcare sector are pharmaceuticals, biotechnology, health insurance, health supplies, and health information technology. Pharmaceuticals averaged more than 40% of the total profits of these industries.

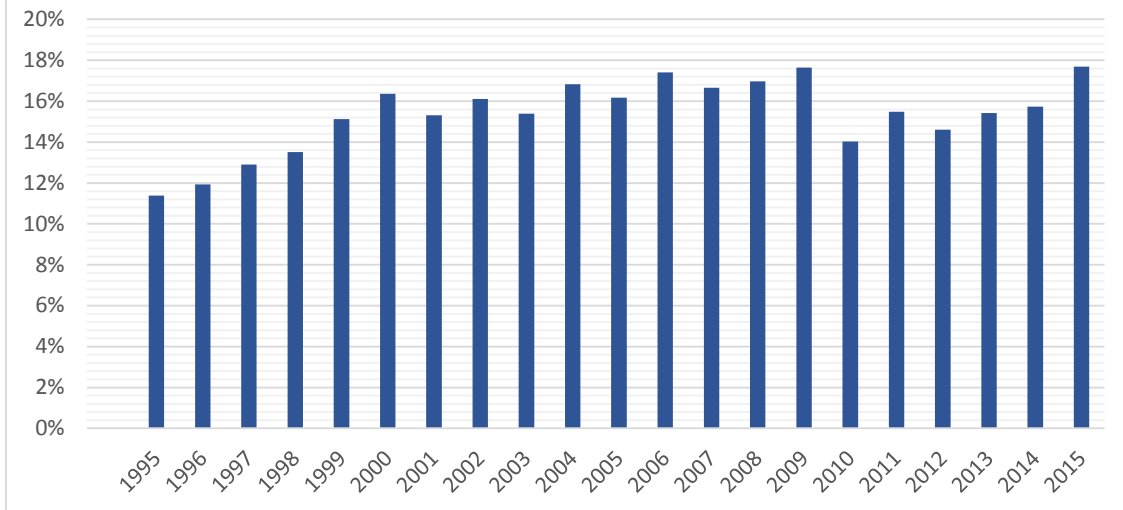
⁸ Thomson Financials, adjusted for inflation

Worldwide Top 50 Pharma Profit 1995-2015 Total Profit \$1.6 Trillion

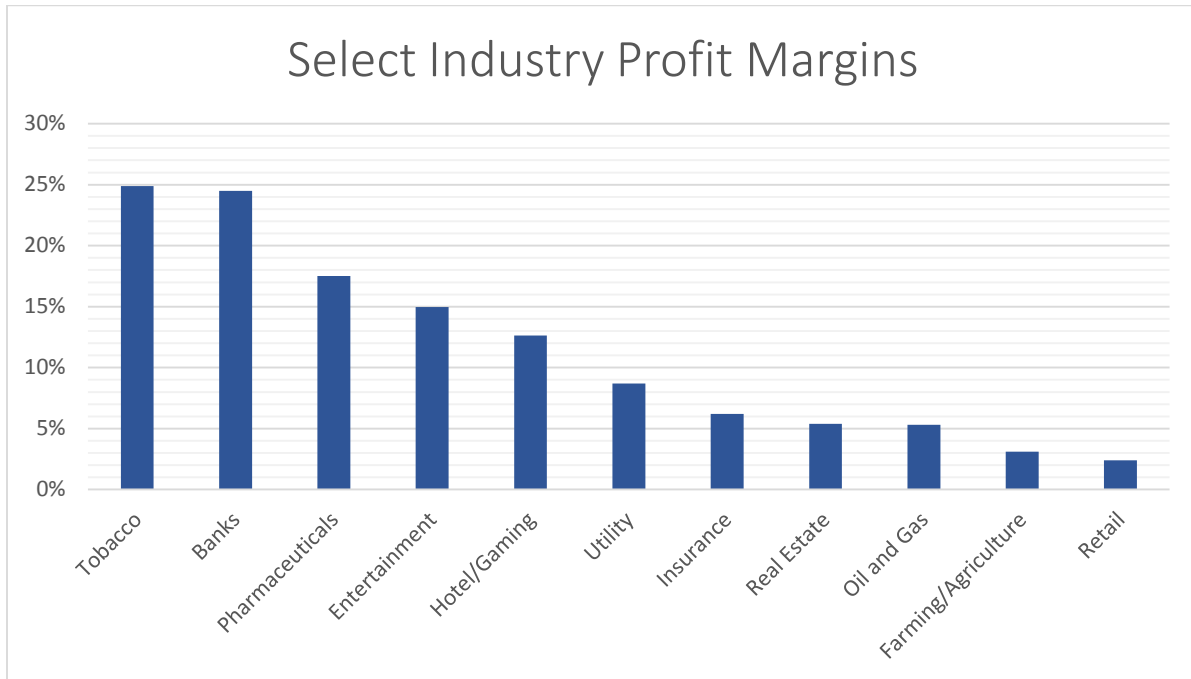


Based on the high sales numbers, it follows that pharmaceutical companies would realize large profits as well. If we take a look at the profit margin, that is the percentage of sales that is profit, we can get a better idea of the amount of profit these companies are making as they relate to the sales. Below are the profit margins for the top 50 pharmaceutical companies.

Worldwide Top 50 Profit Margin 1995-2015



How does this relate to other industries? The following chart shows that pharmaceutical companies have one of the highest profit margin amongst common industrial sectors, surpassed only by the banks and tobacco. ⁹



So where does all of this profit go? What do we, as a society, gain from these enormous profits? The short answer is it depends. Companies make a decision to either reinvest the profits back into the company in the form of items such as research and development, or to use that profit to reward shareholders. The majority of drug company profits, however, go straight to Wall Street in the form of dividends. Dividends are sums of money paid out to shareholders from the profit gained by companies. The payout ratio is the percentage of profit that is paid out in dividends. Of the top ten most profitable drug companies in 2015, four companies paid out over 92% of their profit to shareholders. The majority of pharmaceutical stocks are owned by investment management firms. ¹⁰

COMPANY	2015 Sales	2015 PROFIT	Dividends Paid	Payout Ratio	Percent Owned by Investment Firms
NOVARTIS AG	\$48,505,270,000	\$17,128,400,000	\$16,806,386,080	98.12%	33%
JOHNSON & JOHNSON	\$70,074,000,000	\$15,409,000,000	\$8,752,312,000	56.80%	55%
GLAXOSMITHKLINE PLC	\$35,260,110,000	\$12,413,190,000	\$0	0.00%	11%
ROCHE HOLDING AKTIENGESELLSCHAFT	\$48,096,050,000	\$8,853,990,000	\$6,819,343,098	77.02%	30%

⁹ Margins by Sector, January 2016, http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html

¹⁰ IHSP calculations using Thomson Financials and Yahoo Financials.

PFIZER INC.	\$48,851,000,000	\$6,965,000,000	\$7,149,572,500	102.65%	69%
NOVO NORDISK AS	\$15,710,350,000	\$5,074,380,000	\$2,263,173,480	44.60%	34%
SANOFI S.A.	\$37,870,830,000	\$4,657,130,000	\$4,297,599,564	92.28%	34%
BAYER AG	\$50,323,520,000	\$4,464,850,000	\$2,119,464,295	47.47%	44%
MERCK & CO. , INC.	\$39,498,000,000	\$4,442,000,000	\$4,466,431,000	100.55%	72%
ALLERGAN PLC	\$15,071,000,000	\$3,683,200,000	\$0	0.00%	85%
Total	\$409,260,130,000	\$83,091,140,000	\$52,674,282,017	63.39%	NA

Most profits within the pharmaceutical industry are limited to a mere handful of companies. The following companies have ranked at the top 20 in profits over the last 20 years.¹¹

Company	Country	Years In Top 20	20 Year Profit Total
JOHNSON & JOHNSON	USA	20	\$214,126,000,000
PFIZER INC.	USA	20	\$167,226,000,000
NOVARTIS AG	Switzerland	20	\$165,864,000,000
MERCK & CO. , INC.	USA	20	\$147,815,000,000
ASTRAZENECA PLC	UK	20	\$94,078,000,000
BRISTOL-MYERS SQUIBB COMP	USA	20	\$71,089,000,000
NOVO NORDISK AS	Denmark	20	\$39,347,000,000
SANOFI S.A.	France	19	\$83,781,000,000
BAYER AG	Germany	19	\$52,873,000,000
TAKEDA PHARMACEUTICAL COM	Japan	19	\$42,987,000,000
MERCK KGAA	Germany	19	\$15,428,000,000
ROCHE HOLDING AKTIENGESEL	Switzerland	18	\$140,021,000,000
ELI LILLY AND COMPANY	USA	18	\$64,722,000,000
ASTELLAS PHARMA INCORPORA	Japan	18	\$17,403,000,000
DAIICHI SANKYO COMPANY LI	Japan	18	\$13,892,000,000
GLAXOSMITHKLINE PLC	UK	17	\$148,549,000,000
TEVA PHARMACEUTICAL INDUS	Israel	16	\$24,385,000,000
EISAI COMPANY LIMITED	Japan	14	\$6,748,000,000
UCB SA	Belgium	11	\$4,915,000,000

¹¹ Thomson Financials, adjusted for inflation

The real question we need to answer is how are the drug companies able to make so much profit? In the next brief, we will discuss the pharmaceutical industry utilizes patent laws and ever-greening to create a monopoly on the drugs they overcharge for. While the single-payer healthcare model would be the ultimate solution to reduce out of control drug costs, a good first step would be California's Proposition 61, which is designed to reign in the outrageous prices charged by pharmaceutical companies and bring them in line with what the Veterans Administration pays for drugs. This will put us on the road to closing the gap between the high prices we pay for drugs and what the rest of the world pays.