

## APPENDIX E

## PROFITS OF DRUG MANUFACTURING FIRMS IN CANADA

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A review of the profits earned by Canadian drug manufacturers is pertinent for the purpose of ascertaining whether or not the industry is realizing excess profits. This point was made in the testimony of Hoffmann-La Roche Limited.

"I think you can find in every debate, in every discussion of this problem, people really judge the industry, not as it says on its prices, but really, from Kefauver onward, they are asking, are the profits too high? And so far as I know that is the only test that one can ever realistically make of drug prices—are the drug manufacturers earning too much money to cover their legitimate current costs including research, to enable them to go on, to finance expansion, and so forth." (Minutes of Proceedings and Evidence, page 722).

This naturally leads to a judgment of what represents a fair profit. An appropriate definition may be found in Cyanamid's statement of objective for the conduct of its pharmaceutical business: "a rate of return consistent with the resources committed and the risks involved". The definition is much more easily arrived at than the determination of the rate, however. In attempting to reach a judgment on the question, it is helpful to compare the return and risks to the pharmaceutical industry with those of manufacturing industries in general as well as other specific industries.

#### *Rate of Return on Sales*

In the report of the Restrictive Trade Practices Commission, a comparison of the profitability of the pharmaceutical industry with that of all manufacturing was made on the basis of profits in relation to sales (report, pages 373-375). In this study, the rates of return on sales for the years 1953-1960 were calculated. These rates are reproduced in Table 1 together with corresponding rates for the years 1961 to 1964.

It is apparent from Table 1, that the operating results for 1961-1964 do not indicate any material change in trend from that shown for the period 1953-1960, dealt with by the Restrictive Trade Practices Commission. Although the average rate of return on sales of pharmaceuticals decreased noticeably in 1961 and 1962, there was a significant recovery in 1963 to a rate of 10.05 per cent, the fourth highest rate in the twelve-year period 1953-1964. The average rate of return for this entire period was 9.55 per cent for pharmaceuticals and 5.82 per cent for all manufacturing, the former being approximately 64 per cent higher than the latter. It is also noted that the rate of return on sales was declining for manufacturing in general but remained relatively stable in pharmaceuticals. The rate for all manufacturers appears to have levelled off at 5-5½ per cent of sales; the rate for drug manufacturers seems to run between 8-10½ per cent of sales.

A similar relationship is shown by the rates of return for profit companies only. Over the twelve-year period, the average rate for profit companies in the pharmaceutical industry was about 57 per cent higher than the average rate for