

## Covid drives a record jump in research spending for big pharma



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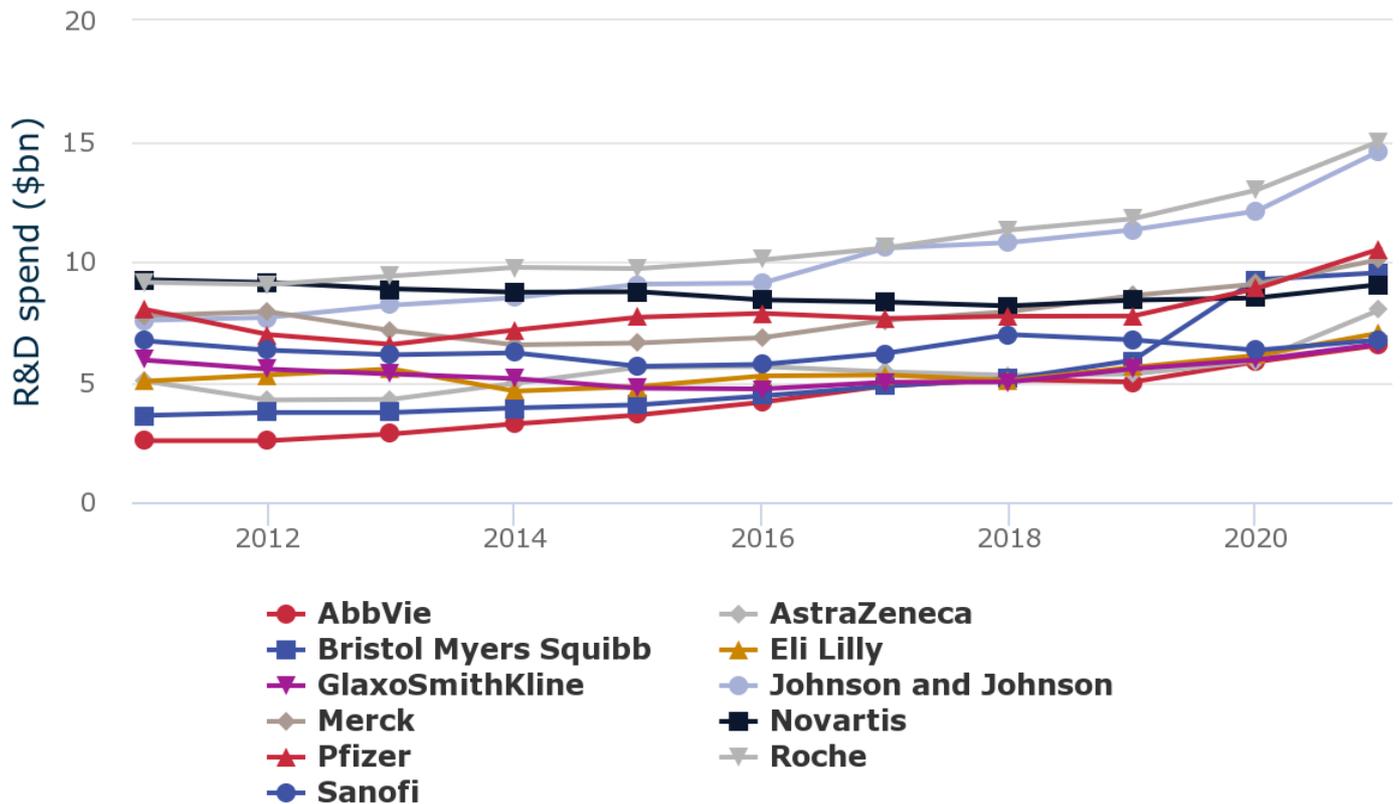
**A second year of pandemic investments helped big pharma's combined R&D bill surge above \$100bn for the first time.**

The world's largest developers spend huge amounts on research and development each year, and the outbreak of Covid has added substantial sums to those endeavours. The 11 big pharma firms saw their combined R&D investments jump 11% in 2021 on the previous year, the biggest annual rise in at least five years.

A substantial uptick in investment from 2020 by the big pandemic vaccine names – Pfizer, AstraZeneca and Johnson & Johnson – is clearly visible in a 10-year view of these companies' R&D outlays. Roche, which also made substantial contributions to Covid research, has also accelerated its spending recently, although it is interesting to note that this is not true for all big pharma groups.

These four companies are also supporting substantial pipelines, of course, so this expansion will not all be down to Covid. The addition of Alexion R&D boosted AstraZeneca's numbers last year, for example, while J&J made no apologies about its record bill, insisting that it had a strong portfolio of products on which it was prepared to make big bets.

# Big Pharma R&D spend



Note: Excludes exceptionals; Source: Evaluate

The 11 companies here might all be considered big pharma but they are actually very different sizes when it comes to their earnings and, therefore, the sums they are able to invest. This means that a more insightful comparison can be R&D spend as a proportion of sales, a ratio that allows insight into these developers' strategic approach to this spend line.

The caveat to remember here is that big topline moves, caused by acquisition or patent expiry, will influence this ratio year-to-year. So a big swing does not necessarily reflect any strategic shift in approach to in-house development.

Take Abbvie, whose R&D spend has increased in real terms but as a percentage of sales has plummeted, by almost three percentage points over the decade. Last year this came in at almost 12% of sales, by far the lowest of the big pharma pack. This is down to Humira's huge sales, which are about to start falling as the mega-blockbuster loses US exclusivity, a decline that will have the opposite effect on the company's ratio.

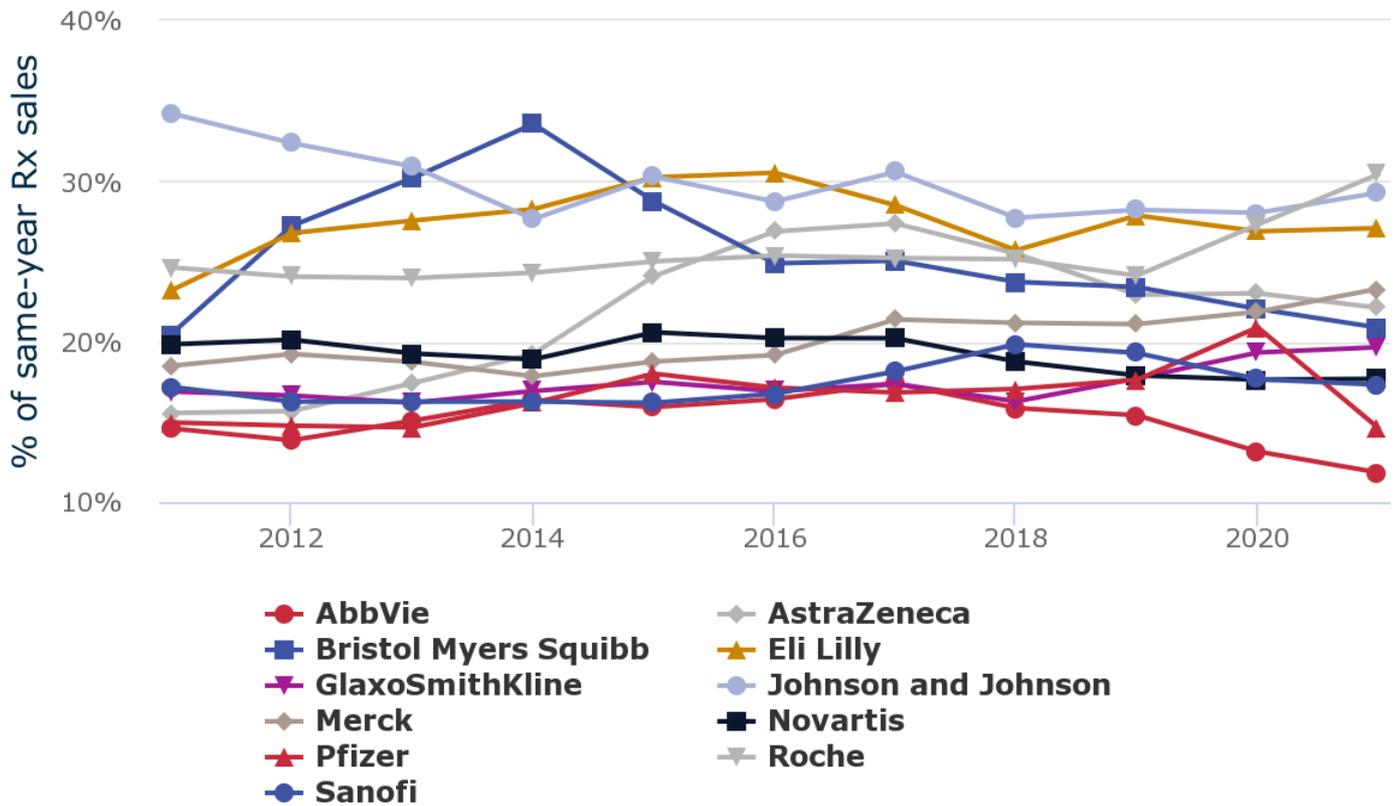
Pfizer is in a similar position thanks to the Covid vaccine Comirnaty, the huge sales of which caused that company's spend per sales to plummet last year.

Companies that are driving R&D spend higher, both in absolute terms and as a percentage of sales, are also interesting to note. This includes Merck & Co, which is presumably investing heavily to find a replacement for Keytruda.

Roche is another example. The Swiss firm is fairly consistently big pharma's biggest R&D investor on both of these metrics, with its spend to sales ratio topping 30% in 2021, a threshold that is infrequently breached by any group.

And what about those dialling back? Step forward Novartis, which has held its R&D spend pretty flat over the past decade, with its spend to sales ratio dropping to at least a 10-year low last year. With the group's pipeline in need of a boost, this is a number that will need to climb. Unless, of course, the company has other plans for its cash.

# R&D spend as a % of Rx sales



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