

Fortune 500: Drug Industry Most Profitable Again

Every year, *Fortune Magazine* examines U.S. industries to determine how they compare to each other in profitability. On April 1, 2002, *Fortune* released its industry rankings for 2001, and, for yet another year, the pharmaceutical industry trumped all other industries in terms of profitability.

In a year that the Fortune 500 saw the worst financial performance in the magazine's 48-year history (with the exception of 1992, when a change in accounting rules affected performance across all industries), the drug industry did consistently well. It ranked number one on all three of *Fortune's* profitability measures—return on revenues, return on assets, and return on shareholder's equity. In fact, the industry usually well outperformed the next most profitable industry in each category. The drug industry also ranked considerably higher than "health care," a separate industry listing that includes hospital corporations, HMOs, health insurance, and PBMs (Pharmacy Benefit Managers). *Fortune's* ranking comes on the heels of a report released on March 29, 2002 by the National Institute for Health Care Management detailing another year of near 20 percent increases in prescription drug costs.

All of this points to the hypocrisy of the industry's refrain that high drug prices are necessary because of the expense and risks associated with research and development (R&D). While there is no question that R&D is important, the industry's consistently stellar profitability indicates that prescription drug prices more than cover the costs of R&D and its associated risks. What's more, R&D costs are in part funded by taxpayers through special tax credits and government-sponsored research. High drug prices, which keep drugs out of the financial reach of millions, aren't about R&D costs—they're about maintaining enormous industry profits.

Below we present the industry's ranking on two of *Fortune's* three profitability measures. For both measures, we've included the rankings of the top five industries, as well as the ranking of the health care industry, to show how that sector compares to pharmaceuticals.

Most Profitable Industries: Return on Revenues

This ranking measures the percent of industry revenues that are profits.

Industry Rank	Industry	2001 Profits as % of Revenues
1	Pharmaceutical	18.5
2	Commercial Banks	13.5
3	Diversified Financials	10.9
4	Mining, Crude-Oil Production	8.6
5	Household Products	8.3
20	Health Care	3.3

Most Profitable Industries: Return on Assets

This ranking measures profits as a percent of assets for the industry as a whole.

Industry Rank	Industry	2001 Profits as % of Assets
1	Pharmaceutical	16.3
2	Household Products	9.5
3	Beverages	8.1
4	Apparel	7.0
5	Food Consumer Products	6.4
11	Health Care	5.2

More information on the *Fortune* listing can be found at (www.fortune.com). The National Institute of Health Care Management report can be found at (www.nihcm.org).