



## **SECOND OPINION: DEBUNKING BIG PHARMA'S BOGUS INNOVATION RHETORIC**

*Brand Name Drug Companies Claim Lowering Rx Prices Will Undercut R&D — The Facts Disagree*

For far too long Big Pharma has used the excuse that research and development (R&D) costs justify out-of-control prescription drug prices and that solutions to lower prices threaten innovation into new breakthroughs. These tired arguments, which Big Pharma wields like a shield to protect the industry's anti-competitive and price-hiking practices, simply don't hold up to scrutiny.

### **PRICE HIKES UNCONNECTED TO CLINICAL IMPROVEMENTS**

Multiple studies have found Big Pharma's price hikes have little to no connection to the cost of its development or improvements in drugs' efficacy. In other words, brand name drug companies set launch prices and hike prices to maximize profits — not because there is any connection to innovation.

- **“A Drug’s Sunk R&D Costs Do Not Influence Its Price.”** A 2021 report from the Congressional Budget Office (CBO) found that pharmaceutical R&D costs do not have a relationship to the prices drug companies set on their products. The report concluded, “Importantly, when drug companies set the prices of a new drug, they do so to maximize future revenues net of manufacturing and distribution costs. A drug’s sunk R&D costs—that is, the costs already incurred in developing that drug—do not influence its price.” (“Research And Development In The Pharmaceutical Industry,” [Congressional Budget Office](#), April 2021)
- **Big Pharma’s Unjustified Price Hikes On Just Seven Popular Drugs Cost American Taxpayers \$1.2 Billion In Increased Costs.** An analysis conducted by the Institute for Clinical and Economic Review (ICER) found that drug companies hiked prices on seven popular drugs in 2019 with no evidence that the drugs had been improved. These price hikes included AbbVie, which increased the price of its best-selling rheumatoid arthritis drug Humira by 6.2 percent, Johnson & Johnson, which increased the price of schizophrenia medication Invega Sustenna by 10.7 percent, and Bristol-Myers Squibb, which increased the price of rheumatoid arthritis drug Orencia by 7.4 percent. (“Unsupported Price Increase Report,” [ICER](#), January 12, 2021)
- **Price Hikes On AbbVie’s Blockbuster Drug Humira Were Not Supported By Clinical Evidence And Led To A More Than \$1.8 Billion Increase In Unnecessary U.S. Drug Spending.** Price hikes on AbbVie’s Humira were [not supported](#) by new clinical evidence and accounted for an unnecessary increase in U.S. drug spending of more than \$1.8 billion from 2017-2018 according to ICER. (“AbbVie’s Humira, Roche’s Rituxan top ICER’s list of worst price-hike offenders,” [FierceHealthcare](#), October 8, 2019)
- **Just Six Percent of Drug Patents in Infringement Suits Were for Active Ingredients or New Molecules.** An analysis conducted in [Nature Biotechnology](#) examined 21 patent infringements lawsuits pursued by pharmaceutical companies on biologic drugs under the Biologics Price Competition and Innovation Act (BPCIA), covering a total of 179 patents. Of the patent filings examined in the study, just six percent were for active ingredients or new molecules. The vast majority were for secondary uses – oftentimes for much less critical changes to the drugs or their manufacturing process, with little to no innovation involved that might improve clinical value for patients. (“The Characteristics of Patents Impacting Availability of Biosimilars,” [Nature Biotechnology](#), January 18, 2022)



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In addition, a series of reports from the U.S. House Committee on Oversight and Reform found that Big Pharma's price hikes and pricing practices were tied to executive compensation benchmarks and earnings targets, and had little if nothing to do with clinical improvements.

- **“Ten Companies in the Committee’s Investigation Paid Their Top Executives More Than \$2.2 Billion From 2016 to 2020, Including \$797 million in Chief Executive Officer (CEO) Compensation.** All ten companies have compensation structures that tie incentive payments to revenue and other financial targets, and several companies directly tied incentive compensation to drug-specific revenue targets.” (“Drug Pricing Investigation: Industry Spending on Buybacks, Dividends, and Executive Compensation,” [U.S. House Committee On Oversight and Reform Staff Report](#), 7/8/21)
- **“Internal Communications Show That Pricing Decisions By Amgen Executives—including Executive Vice President Anthony Hooper—Were Driven Primarily By The Need To Meet Increasingly Aggressive Revenue Targets.”** (Staff Report, “Drug Pricing Investigation: Amgen – Enbrel And Sensipar,” [U.S. House Committee On Oversight And Reform](#), 10/1/20)
- **“Price Hikes On Celgene’s Drug Revlimid Led Directly To Higher Bonuses For Its Executives.”** (“Drug Pricing Investigation: Celgene And Bristol Myers Squibb – Revlimid,” [U.S. House Committee On Oversight And Reform](#), September 30, 2020)
- **“Documents Also Show How Companies Anticipating Generic Competition Executed More Frequent and Higher Price Increases to Maximize Revenues as their Drugs Faced Loss of Patent Protection or Market Exclusivity.”** (“Drug Pricing Investigation: Industry Spending on Buybacks, Dividends, and Executive Compensation,” [U.S. House Committee On Oversight and Reform Staff Report](#), 7/8/21)

### **BIG PHARMA INVESTS BOLDLY IN ADVERTISING AND PROFITS — NOT R&D**

In addition, contrary to the industry’s insistence that out-of-control prices support costly investments in R&D, the facts shows that brand name drug companies invest more boldly in advertising, profits and overhead than innovation and R&D.

- **\$56 Billion:** A 2021 report from the House Oversight Committee found that over the last five years, the top 14 drug companies spent almost \$577 billion on stock buybacks and dividends – \$56 billion more than on research and development during that same time span. (“Drug Pricing Investigation: Industry Spending on Buybacks, Dividends, and Executive Compensation,” [U.S. House Committee On Oversight and Reform Staff Report](#), 7/8/21)
- **\$3.9 Billion:** Big Pharma companies spent \$3.9 billion on TV ads in 2021, according to ad tracker iSpot.tv. (Beth Snyder Bulik, “Pharma Brands Spent \$3.9B on TV Ads In 2021,” [Endpoints News](#), 1/11/22)
- **2X:** A 2019 [study](#) from CSRxP and GlobalData found Big Pharma invests more than twice as much in advertising, profits and corporate overhead than R&D. (“Big Pharma: Investing Boldly In Advertising And Profits, Not R&D,” [The Campaign for Sustainable Rx Pricing](#), May 15, 2019)

Big Pharma also used a [windfall](#) from the Tax Cuts and Jobs Act of 2017 to line shareholders’ pockets, rather than invest in innovation and R&D.



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- **112 Percent:** From 2017 to 2018 dividends and share repurchases increased by 112 percent, more than double the previous year. (“Big Pharma Tax Windfall,” [The Campaign for Sustainable Rx Pricing](#), December 9, 2019)
- **17 Times:** The single-year increase in payouts to Wall Street and shareholding Big Pharma board members and executives was 17 times larger than the increase in R&D spending. (“Big Pharma Tax Windfall,” [The Campaign for Sustainable Rx Pricing](#), December 9, 2019)

### **TAXPAYERS CARRY A SUBSTANTIAL AMOUNT OF THE R&D LOAD**

While Big Pharma tries to obfuscate their out-of-control list prices by invoking “innovation,” the industry has gotten a huge boost in recent years from taxpayer dollars in the form of taxpayer-funded research at the National Institute of Health (NIH).

- **“The U.S. taxpayer has funded research for every single one of the 210 new drugs that the FDA approved between 2010-16.** Yet the companies that have access to this research are increasingly viewing pharmaceuticals in the same way that banks view their financial product — opportunities for short-term returns.” (Mariana Mazzucato, “Big Pharma Is Hurting Drug Innovation,” [The Washington Post](#), 10/17/18)
- **“More than \$100 billion in NIH funding went toward research** that contributed, either directly or indirectly, to the 210 drugs approved between 2010 and 2016. That’s roughly 20 percent of NIH spending since 2000.” (Megan Thielking, “NIH funding contributed to 210 approved drugs in recent years, study says,” [STAT News](#), 2/12/18)

One of the worst offenders is brand name drug maker Gilead, which has repeatedly acquired government-funded research breakthroughs for pennies on the dollar and turned them into blockbuster best-selling drugs.

- **Gilead Sciences Did Not Invent Its Blockbuster Hepatitis C Treatment Sovaldi, Rather It Acquired The Product From A Small Company, Much Of Whose Work Was Federally Funded.** “Gilead Sciences did not invent its blockbuster treatment for hepatitis C, sofosbuvir (Sovaldi), which it priced at \$1,000 per pill. Rather, it acquired the product from a small company founded by the drug’s inventor, a faculty member at Emory University, much of whose work on the usefulness of nucleoside viral inhibitors was federally funded. Gilead paid \$11 billion in late 2011 for the rights to market Sovaldi, an amount it totally recouped in its first year of sales after approval of the drug in late 2013.” (“The \$2.6 Billion Pill – Methodological And Policy Considerations,” [New England Journal of Medicine](#), May 14, 2015)
- **Gilead Recouped Its Investment In Sovaldi In Its First Year On Market.** “Gilead paid \$11 billion in late 2011 for the rights to market Sovaldi, an amount it totally recouped in its first year of sales after approval of the drug in late 2013.” (“The \$2.6 Billion Pill – Methodological And Policy Considerations,” [New England Journal of Medicine](#), May 14, 2015)
- **\$84,000:** The cost of a single course of treatment for Gilead’s blockbuster Hepatitis C Drug Sovaldi. (“Wyden-Grassley Sovaldi Investigation Finds Revenue-Driven Pricing Strategy Behind \$84,000 Hepatitis Drug,” [U.S. Senate Committee on Finance Report](#), December 1, 2015)
- **Taxpayer Funded Research Also Contributed To Gilead’s Blockbuster HIV Prevention Treatment Truvada.** “Thomas Folks spent years in his U.S. Centers for Disease Control and Prevention lab developing a treatment to block deadly HIV in monkeys. Then San Francisco AIDS researcher Robert Grant, using \$50 million in federal grants, proved the treatment worked in people who engaged in risky sex. Their work — almost fully funded by U.S. taxpayers — created a new use for an older prescription drug called Truvada: preventing HIV infection. But the U.S.



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government, which patented the treatment in 2015, is not receiving a penny for that use of the drug from Gilead Sciences, -Truvada's maker, which earned \$3 billion in Truvada sales last year." ("An HIV Treatment Cost Taxpayers Millions. The Government Patented It. But A Pharma Giant Is Making Billions," [The Washington Post](#), March 26, 2019)

- **Taxpayer Dollars Funded "Much Of The Preclinical And Clinical Research" Behind Gilead's COVID-19 Treatment, Remdesivir.** "The research outlined below demonstrates how the U.S. Army, the Centers for Disease Control and Prevention (CDC) and the National Institutes of Health (NIH)/National Institute Allergies and Infectious Diseases (NIAID) either conducted or funded much of the preclinical and clinical development of remdesivir. ("Role of the Federal Government in the Development of Remdesivir," [Knowledge Ecology International](#), March 20, 2020)

All this goes to show that Big Pharma's innovation rhetoric is bogus – and policymakers must see through the pharmaceutical industry's smoke and mirrors excuses and enact market-based solutions that hold brand name drug makers accountable and lower prescription drug prices.

Read more about Big Pharma's first round of price hikes to start out the year [HERE](#).

Read more about the "turbocharged" year Big Pharma had while hiking prices during the COVID-19 pandemic [HERE](#).

Learn more about market-based solutions to hold Big Pharma accountable and lower prescription drug prices [HERE](#).

**About CSRxP:** The [Campaign for Sustainable Rx Pricing](#) is a broad-based coalition of physicians, nurses, hospitals, consumers, health plans, pharmacy benefit managers, pharmacists, and businesses promoting bipartisan, market-based solutions to lower drug prices. Learn more: [www.csrxp.org](http://www.csrxp.org)

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