

Canada's Top 100 Corporate R&D Spenders List 2015 Analysis

Corporate R&D Spending Heads South

Canada's Top 100 Corporate R&D Spenders reduced their spending on research and development by -1.6% in Fiscal 2014, as total outlays fell to \$12.3 billion from \$12.5 billion the previous year. This compares with a 4.1% rise in R&D spending among last year's Top 100 grouping. The reduced R&D flies in the face of a 7.3% rise in revenues for the 87 companies that provided revenue data.

For a third year Bombardier Inc. held on to 1st place among the Top 100, even though R&D spending fell by -7.8% to \$2.0 billion. While it managed to hold on to second place in the ranking, R&D outlay dropped by -40.7% at BlackBerry Limited, to \$785.3 million. Auto parts manufacturer Magna International Inc. posted a small 1.5% increase in spending, to \$585.4 million, to hold on to 3rd position and narrowly edge 4th place finisher BCE Inc., where R&D levels fell by -5.1%, to \$546.0 million. Pratt & Whitney Canada Corp.'s R&D spending fell by -0.5% to \$542.0 million as the firm held on to 5th position.

The divergence between increased revenues and reduced R&D spending led to a sharp -8.0% drop in research intensity (R&D spending as a portion of revenues) for the 87 companies that reported in full. Intensity fell to 2.7% of revenues from 2.9% last year. Paradoxically, while total Top 100 R&D fell, spending did rise at 69 companies, but fell at 30 others (spending was flat at 1 company).

The \$100 Million Club

Research Infosource is pleased to showcase 30 companies (up from 28 last year) whose spending gained them membership in the \$100 Million Club – an elite group of firms that spend \$100 million or more on R&D. The Club includes 22 Canadian companies and 8 foreign subsidiaries.

New to the \$100 Million Club are Suncor Energy Inc. (#21 overall), Mitel Networks Corporation (#24) and Cisco Canada (#30).

On a discordant note, \$100 Million Club members' Fiscal 2014 spending on research fell by -3.7% to \$10.0 billion, from \$10.4 billion the prior year. Club members accounted for 81.2% of total Top 100 spending, which is nearly the same as in Fiscal 2013.

The \$100 Million Club		
2014 Rank	Company	R&D Spending \$000
1	Bombardier Inc.*	\$2,022,340
2	BlackBerry Limited* ++	\$785,300
3	Magna International Inc.*	\$585,385
4	BCE Inc.	\$546,000
5	Pratt & Whitney Canada Corp. (fs)	\$542,000
6	IBM Canada Ltd. (fs)	\$466,000
7	Canadian Natural Resources Limited	\$450,000
8	Rogers Communications Inc.	\$418,000
9	Atomic Energy of Canada Limited+	\$346,900
10	Ericsson Canada Inc. (fs)	\$315,000
11	Apotex Inc.	\$311,105
12	Constellation Software Inc.*	\$287,518
13	Valeant Pharmaceuticals International, Inc.*	\$271,707
14	CGI Group Inc.	\$262,492
15	AMD Canada (fs)	\$206,000
16	Open Text Corporation*	\$195,313
17	TELUS Corporation	\$194,000
18	General Motors of Canada Limited (fs)	\$190,000
19	Imperial Oil Limited	\$175,000
20	BRP Inc.++	\$158,200
21	Suncor Energy Inc.	\$150,000
22	CAE Inc.	\$149,000
23	MDA	\$138,951
24	Mitel Networks Corporation*	\$130,662
25	Sanofi (fs) ^(a)	\$130,471
26	Cenovus Energy Inc.	\$124,000
27	Syncrude Canada Ltd.	\$112,094
28	GlaxoSmithKline Inc. (fs)	\$110,125
29	Hydro-Québec	\$106,000
30	Cisco Canada (fs)	\$104,156

*Converted to CDN\$ at annual average 2014 = 1.1045, 2013 = 1.0299 (Bank of Canada)

fs = Foreign subsidiary (includes R&D spending for Canadian operations only)

+Not current name/acquired/merged

++Fiscal 2015 results were used for year-ended January or February

^(a) Sanofi Pasteur Limited and sanofi-aventis Canada Inc. (including Genzyme Canada).

Industry Performance

Even though their total R&D declined by -5.5%, 5 Aerospace companies still accounted for 22.4% of total Top 100 spending, down slightly from 23.3% the year before. By growing their spending by 14.9% the 15 Software and Computer Services companies on the list accounted for 13.2% of the Top 100 total, up from 11.3% in Fiscal 2013. In contrast, 9 Communications/Telecom Equipment manufacturers saw their share of total industry spending fall to 12.9% of the total from 16.0% the prior year, as a result of a -21.0% reduction in R&D. A bright spot was the Pharmaceuticals/Biotechnology sector, where 22 firms increased their R&D

levels by 23.4% and raised their share of Top 100 spending to 11.5% of the total, from 9.1% last year. Spending by 10 Energy/Oil & Gas firms fell by -12.1%, which dropped their share of the Top 100 total to 9.5% from 10.6% in Fiscal 2013. Taking all its sub-industries into account (including Medical Devices and Instrumentation) the Information and Communications Technology sector still dominates the R&D scene, accounting for a total of 39.6% of all-industry spending.

Top 100 - Leading Industries	
Industry	R&D Spending (% of Total)
Aerospace (5)	22.4
Software & Computer Services (15)	13.2
Communications/Telecom Equipment (9)	12.9
Pharmaceuticals/Biotechnology (22)	11.5
Energy/Oil & Gas (10)	9.5
Telecommunications Services (3)	9.4
Automotive (4)	7.2

R&D Spending Growth

While the overall Top 100 picture was weak, a number of individual firms posted strong gains in R&D spending. Heading the list was Concordia Healthcare Corp., which expanded its spending by 416.5% to \$10.3 million. At Aurinia Pharmaceuticals Inc. R&D investment grew by 349.4% to \$10.1 million. R&D spending at Trillium Therapeutics Inc. rose by 205.8% to \$10.9 million. Mitel Networks Corporation grew its R&D by 127.8% to \$130.7 million. Titan Medical Inc. expanded R&D by 113.9% to \$11.8 million.

Top 10 Companies by Growth			
2014 Rank		Company	% Change 2013-2014
R&D Growth	Overall		
1	98	Concordia Healthcare Corp.*	416.5
2	100	Aurinia Pharmaceuticals Inc.*	349.4
3	95	Trillium Therapeutics Inc.	205.8
4	24	Mitel Networks Corporation*	127.8
5	93	Titan Medical Inc.*	113.9
6	65	Avigilon Corporation	109.8
7	61	Shopify Inc.*	100.2
8	38	Redknee Solutions Inc.*	93.8
9	50	Tekmira Pharmaceuticals Corporation*+	93.5
10	78	Transition Therapeutics Inc.	92.4

*Converted to CDN\$ at annual average 2014 = 1.1045, 2013 = 1.0299 (Bank of Canada)

+Not current name/acquired/merged

The Top 10 R&D Intensive Firms

Available data allowed Research Infosource to calculate the R&D intensity of 85 of the Top 100 firms – research spending as a percent of revenues. An eclectic mix of companies and industry sectors are represented. The 5 leading firms are AECL (now Canadian Nuclear Laboratories – up 266.9%), Tekmira Pharmaceuticals Corporation (258.9%), ProMetic Life Sciences Inc. (159.2%), Neptune Technologies & Bioresources Inc. (73.2%), and PMC-Sierra Ltd. (60.0%).

Top 10 Research Intensive Companies**			
2014 Rank		Company	R&D as % of Revenue
Research Intensity	Overall		
1	9	Atomic Energy of Canada Limited+	266.9
2	50	Tekmira Pharmaceuticals Corporation*+	258.9
3	56	ProMetic Life Sciences Inc.	159.2
4	94	Neptune Technologies & Bioresources Inc. ++	73.2
5	34	PMC-Sierra Ltd.* (fs)	60.0
6	32	Westport Innovations Inc.*	59.3
7	15	AMD Canada (fs)	47.7
8	75	ViXS Systems Inc.* ++	45.3
9	61	Shopify Inc.*	25.9
10	38	Redknee Solutions Inc.*	24.1

*Converted to CDN\$ at annual average 2014 = 1.1045, 2013 = 1.0299 (Bank of Canada)

**Based on companies with \$2 million or more of revenue

+Not current name/acquired/merged

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fs = Foreign subsidiary (includes R&D spending for Canadian operations only)

Looking Ahead

This year's Top 100 results were a disappointment overall. However, analysts can take heart that spending rose at 69 of the Top 100 against a decline at 30 others (1 company was even). Total R&D expenditure was down by -1.6%. This compares with a 4.1% increase in spending among last year's Top 100 grouping. (Note that the Top 100 composition changes from year to year and results are not strictly comparable.)

The Top 100 result is heavily influenced by the performance of the leading R&D firms. Disappointingly, spending declined – often substantially – at 7 of the country's 10 largest R&D firms. With some notable exceptions - e.g. BlackBerry Inc., AECL - overall revenues increased, so revenue shortfalls cannot be blamed for the decline in research spending at most firms.

It seems to us that R&D activity is broadly holding up among most R&D firms, but suffering at the largest companies, many of which are facing well-known product or market headwinds. Last year we suggested that a declining Canadian dollar and a shift in federal research tax policy would be the primary influences on corporate R&D spending. This year resource company revenues will be a primary driver. Overall, expect next year's corporate R&D performance to mirror this year's. Also prepare for some further significant declines among the leading firms.