

Canada's Top Corporate R&D Spenders Report 2007

2.0 HIGHLIGHTS

- ◆ Corporate R&D spending headed back into a slump, declining -2.9% between Fiscal 2005 and 2006. Canada's 653 top Corporate R&D Spenders invested \$12.8 billion on R&D in Fiscal 2006, down from \$13.1 billion in Fiscal 2005.

Nortel Impact

This year the inclusion of Nortel Networks' results had a positive effect on R&D spending. Without Nortel's results, R&D spending declined even more (-3.1%) between Fiscal 2005 and 2006.

- ◆ The highest share of R&D spending was concentrated among the Top 100 Spenders (companies spending \$14.6 million or more) in Fiscal 2006. The Top 100 R&D Spenders accounted for 90% of all R&D spending in Fiscal 2006. Tier 2 companies (spending between \$2 million and \$14.5 million) accounted for 9% and Tier 3 companies (spending less than \$2 million) accounted for only 2%.

- ◆ Companies from Tier 1 and Tier 3 saw a decline in research spending between Fiscal 2005 and 2006 (-3.8% and -1.1% respectively).

Nortel Impact

Removing Nortel Networks from Tier 1 companies increased the R&D spending decline of the remaining Tier 1 companies, with a decrease of -4.2% between Fiscal 2005 and 2006.

However, Tier 2 companies continued (for the second year in a row), to report a strong growth of 6.4% during the same period.

- ◆ The \$100 Million Club (companies with R&D spending of \$100 million or more in Fiscal 2006), an elite group of 24 companies this year, spent a total of \$8.3 billion on R&D accounting for 65% of all reported R&D spending.

- ◆ Just over a third of companies had their head offices in Ontario (34%), accounting for 52% of all R&D spending in Fiscal 2006.

Nortel Impact

Taking Nortel Networks out of the Ontario mix of firms netted the Ontario region a year-over-year spending decline of -4.4%.

Although Ontario-headquartered firms dominated total R&D spending (\$6.6 billion), their total year-over-year R&D spending declined between 2005 and 2006 (-3.7%). Quebec firms, representing 23% of all firms, registered an even greater decline of -5.6% during the same period. British Columbia with 22% of all firms, had negligible year-over-year growth last year (0.5%). The Prairie companies, representing 18% of all firms reported the highest year-over-year R&D spending growth of 14.3% between Fiscal 2005 and 2006.

- ◆ In Fiscal 2006, four industries:

Communication/telecom equipment, Pharmaceuticals/biotechnology, Software & computer services and Telecommunications services accounted for 62% of all R&D spending (\$8.0 billion).

Nortel Impact

With Nortel Networks included, the Comm/telecom equipment sector ranked highest in terms of total outlay (\$3.1 billion), far exceeding the next leading sector, Pharma/biotech (\$2.2 billion). However, without Nortel's influence, the Pharma/biotech sector took the lead with the Comm/telecom equipment sector ranking 4th with \$948 million in spending.

- ◆ Overall, high research intensity is inversely related to company size (as measured by revenue). In Fiscal 2006, firms with smaller revenues (less than \$5 million) had a total research intensity of 132.4% up from 115.3% in Fiscal 2005. Medium-size companies (between \$5 million and \$99.9 million) had an intensity of 15.3% in Fiscal 2006, down from 16.3% in Fiscal 2005. Larger firms (\$100 million or more) only achieved a research intensity of 2.6% in 2006, down from 2.8% in Fiscal 2005.

- ◆ Overall, research intensity (R&D as a percent of revenue) for total companies in Fiscal 2006 was 2.9%, down from 3.1% in Fiscal 2005.

Nortel Impact

Without Nortel Networks' results included, research intensity declined at an even somewhat faster rate between Fiscal 2005 and Fiscal 2006 by -6.9%.

- ◆ Foreign subsidiaries' research intensity was higher at 6.1% in Fiscal 2006. However, foreign companies' year-over-year research intensity decreased again (-13.7%) between Fiscal 2005 and 2006. The decline was more than 3 times greater than the prior year's -4.4% decline. Research intensity for Canadian companies also declined between 2005 and 2006, (-6.6%). Although the Canadian companies' research intensity decrease was also significantly more than last year's decline of -1.5%, it was still about half that of the foreign subsidiaries'.

