

## Canada's Top 100 Corporate R&D Spenders List 2014 Analysis

### Corporate R&D Spending on a Moderate Growth Path

In Fiscal 2013, Canada's Top 100 Corporate R&D Spenders increased their combined research outlay by a respectable 4.1% to \$12.5 billion from \$12.0 billion in Fiscal 2012 – less than the 12.6% increase the previous year. However, Top 100 R&D growth failed to keep pace with revenue growth, which expanded by 7.0% to \$326 billion. In total, R&D spending increased at 57 companies, fell at 41 firms and was flat at 2 others.

Bombardier Inc. maintained its first place rank by growing its R&D spending to \$2.2 billion, up 15.4% from Fiscal 2012. BlackBerry Limited held on to 2<sup>nd</sup> place even though its spending declined by -12.2%, to \$1.3 billion. Magna International leaped 3 places in the ranking to 3<sup>rd</sup> position with \$576.8 million of R&D spending, up 12.0% over Fiscal 2012. BCE Inc. fell one place to occupy 4<sup>th</sup> position. Pratt & Whitney Canada held on to 5<sup>th</sup> place.

For the 91 firms that provided revenue information, Research Intensity – R&D spending as a percentage of revenue – fell to 3.2% from 3.3% the previous year, a decline of -1.9%.

### The \$100 Million Club

Research Infosource is pleased to announce that 28 companies (up from 27 last year) gained membership in the \$100 Million Club – an elite group of firms that spend \$100 million or more on R&D. The Club includes 21 Canadian companies and 7 foreign subsidiaries.

New to the \$100 Million Club are CGI Group Inc. (#11 overall), Valeant Pharmaceuticals International (#20) and MacDonald Dettwiler and Associates (#27).

Total \$100 Million Club spending on research was \$10.2 billion, a rise of 6.0% from Fiscal 2012. Club members accounted for 81.4% of total Top 100 spending, up from 80.0% the year before.

The \$100 Million Club		
2013 Rank	Company	R&D Spending \$000
1	Bombardier	\$2,193,719
2	BlackBerry	\$1,324,470
3	Magna International	\$576,752
4	BCE	\$575,400
5	Pratt & Whitney Canada (fs)	\$544,782
6	IBM Canada (fs)	\$492,000
7	Rogers Communications	\$394,000
8	Canadian Natural Resources	\$390,000
9	Atomic Energy of Canada	\$353,600
10	Ericsson Canada (fs)	\$318,000
11	CGI Group	\$252,116
12	Apotex	\$222,439
13	Cenovus Energy	\$213,000
14	AMD Canada (fs)	\$211,000
15	Imperial Oil	\$199,000
16	Constellation Software	\$190,554
17	Syncrude Canada	\$185,165
18	General Motors of Canada (fs)	\$182,089
19	Open Text	\$168,916
20	Valeant Pharmaceuticals International	\$161,473
21	TELUS	\$161,000
22	BRP	\$144,900
23	CAE	\$144,096
24	Sanofi (fs) <sup>(a)</sup>	\$129,100
25	GlaxoSmithKline Canada (fs)	\$118,224
26	Ontario Power Generation	\$117,000
27	MacDonald, Dettwiler and Associates	\$116,602
28	Hydro-Québec	\$100,000

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

<sup>(a)</sup> Sanofi Pasteur Limited and sanofi-aventis Canada Inc. (including Genzyme Canada)

## Industry Performance

The Aerospace sector accounted for 23.0% of total Top 100 spending as 3 firms increased their total outlay by 12.1%. The second-largest sector was Communications/Telecom Equipment, where 11 firms posted \$2.0 billion of research spending, a decline of -9.0% over Fiscal 2012. Spending expanded by 22.9% among the 15 Software & Computer Services companies that took third position on the Top 100 list. Twenty Pharmaceuticals/Biotechnology firms expanded their combined spending by 11.5% and occupied 4<sup>th</sup> place in the industry sector ranking. Rounding out the top 5 sectors was Energy/Oil & Gas, where 8 firms spent a total of \$1.1 billion on research, an increase of 3.0%. However, aggregating all the Information and Communication Technology sector-related firms puts that group of industries in the lead in terms of research investment, with 40.3% of the total.

<b>Top 100 – Leading Industries</b>	
<b>Industry</b>	<b>R&amp;D Spending (% of Total)</b>
Aerospace (3)	23.0
Communications/Telecom Equipment (11)	16.2
Software & Computer Services (15)	11.3
Pharmaceuticals/Biotechnology (20)	9.6
Energy/Oil & Gas (8)	9.1
Telecommunications Services (3)	9.0
Automotive (4)	6.8

### R&D Spending Growth

A number of firms displayed especially strong growth in their R&D spending in Fiscal 2013. Spending was especially strong at Redknee Solutions Inc. (278.0%), TransCanada Corporation (203.9%) and CGI Group Inc. (164.1%). Valeant Pharmaceuticals International Inc. also posted a triple-digit increase (104.3%).

<b>Top 10 Companies by Growth</b>			
<b>2013 Rank</b>		<b>Company</b>	<b>% Change 2012-2013</b>
<b>R&amp;D Growth</b>	<b>Overall</b>		
<b>1</b>	52	Redknee Solutions	278.0
<b>2</b>	64	TransCanada	203.9
<b>3</b>	11	CGI Group	164.1
<b>4</b>	20	Valeant Pharmaceuticals International	104.3
<b>5</b>	96	Avigilon	83.6
<b>6</b>	70	ProMetic Life Sciences	73.2
<b>7</b>	27	MacDonald, Dettwiler and Associates	63.4
<b>8</b>	59	Resverlogix	50.4
<b>9</b>	16	Constellation Software	48.0
<b>10</b>	8	Canadian Natural Resources	44.4

### The Top 10 R&D Intensive Firms

This year's list of the most research-intensive companies includes a mix of Engineering Services, Pharmaceuticals/Biotechnology, Transportation and ICT firms.

Top 10 Research Intensive Companies*			
2013 Rank		Company	R&D as % of Revenue
Research Intensity	Overall		
1	9	Atomic Energy of Canada	192.2
2	67	Tekmira Pharmaceuticals	138.8
3	70	ProMetic Life Sciences	94.6
4	31	PMC-Sierra (fs)	61.6
5	77	ViXS Systems	56.6
6	30	Westport Innovations	55.9
7	92	NexJ Systems	49.2
8	100	PNI Digital Media <sup>+</sup>	47.4
9	14	AMD Canada (fs)	46.9
10	73	IMRIS	38.7

<sup>+</sup>Not current name/acquired/merged

\*Based on companies with \$1 million or more of revenue only

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

## Looking Ahead

Canada's Top 100 Corporate R&D Spenders sent mixed signals this year about the country's industrial research performance. On the one hand, combined research spending grew by 4.1%, but this was less than the 7.0% growth in revenues.

In many firms R&D spending is (rightly) viewed as a cost and not as an investment. Bombardier's situation illustrates the difficulty of automatically equating high levels of R&D spending with a company's (or country's) competitiveness. Much of that firm's high spending on research is the result of problems bringing a key product to market, rather than an efficient investment in innovation and productivity.

In the coming year a falling Canadian dollar should help a number of sectors to boost revenues and profits, but will also expose them to higher R&D costs for imported equipment and labour. Recent income tax changes will give them less relief for R&D capital costs. Government policy for boosting industrial R&D is moving slowly from tax-based support to direct support for research. Unless the global economy takes off, rising U.S. demand spills over to Canada, or Chinese industrial consumption increases, look for Fiscal 2014 to be a repeat of Fiscal 2013.