

Summary of the financial reports for Merck/Schering Plough from 2003-2015

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First, some definitions:

-Sales/revenue: Some companies report total sales only, some total revenue only and some itemize total sales then add extra revenue. I use total revenue whenever it's an option.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to that net income. In such cases I'll use net income attributable to that company for profit.

-Research includes research and development and purchased in-process research.

-Marketing is usually listed as Selling, informational, and administrative. It includes more than just the money spent on direct to consumer advertising. The marketing budget also includes money spent on pharmaceutical representatives that visit your doctor, free drug samples left at doctors' offices, payments to doctors who give "educational" talks on behalf of pharmaceutical companies, etc...

There are other administrative expenses that are not directly related to marketing lumped into this budget. This even includes litigation costs to fight lawsuits against these companies. Still, the pharmaceutical companies could list their marketing budget as a separate expense if they wanted the way Bristol-Myers Squibb lists their advertising budget separately, so it's their choice not to. Anyway, much of what Pharmaceutical companies call research is really just marketing so all figures should be taken with a grain of salt.

-Revisions: Revisions in financial reports occur for a number of reasons. Often, when a company divests a division by spitting it off or selling it to another company, it will retroactively deduct the revenue and expenses related to that division from the finances of previous years. For reasons unclear to me, companies often won't retroactively deduct the profits they earned from the divested division; only the revenue and expenses. Other revisions might reflect a change in accounting methods or a reallocation of funds.

When a figure is revised in a subsequent report I often use the revised figure unless the reason for the revision appears truly artificial. This can be challenging when, for example, frequent revisions occur over multiple years with little explanation (see Pfizer). In general, I did my best to use the numbers that I felt most accurately reflected the companies actual finances when considering the revisions.

Merck acquired **Schering Plough** pharmaceuticals in 2009. Since the two companies merged halfway through the timeframe of my study I combined their finances from 2003-2009. Because of the merger, Schering Plough didn't file either an annual or fourth quarter financial statement for 2009. This lack of data means that their 2009 revenue is off by about \$4 billion as well as the estimates for how much they spent and their profit that year.

Neither Merck nor Schering Plough made as much in profits as they spent on research. In fact, from 2003-2008 Schering Plough barely broke even. Schering Plough's average profit margin for those years was just over one percent. Furthermore, Merck's acquisition of Schering Plough didn't appear to help either company. In spite of the merger Merck's total revenue has been dropping since 2011. Merck's Profits also took a hit with the Vioxx settlement in 2007 which cost them nearly \$5 billion.

Most of the revisions in the reports happened in the 2003-2005 figures that were revised in the 2006 report due to changes in accounting methods.

Now the composite numbers for Merck from 2003-2015:

Total Revenue (Sales):	\$433 Billion
Total Profit:	\$80 Billion
Total Spent on Research:	\$81 Billion
Total Spent on Marketing:	\$126 Billion
Total Spent in Taxes:	\$25 Billion
US Revenue:	\$210 Billion
Revenue from All Other Countries:	\$223 Billion

And the composite numbers for Schering Plough from 2003-2009:

Total Revenue (Sales):	\$81 Billion
Total Profit:	\$2.8 Billion
Total Spent on Research:	\$20 Billion
Total Spent on Marketing:	\$33 Billion
Total Spent in Taxes:	\$2 Billion
US Revenue:	\$29 Billion
Revenue from All Other Countries:	\$52 Billion

Total Executive pay for Merck was \$67.93 million in 2014 with \$25.03 million going to their CEO Kenneth C. Frazier.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=MRK>
http://truecostofhealthcare.net/pharmaceutical_financial_index/

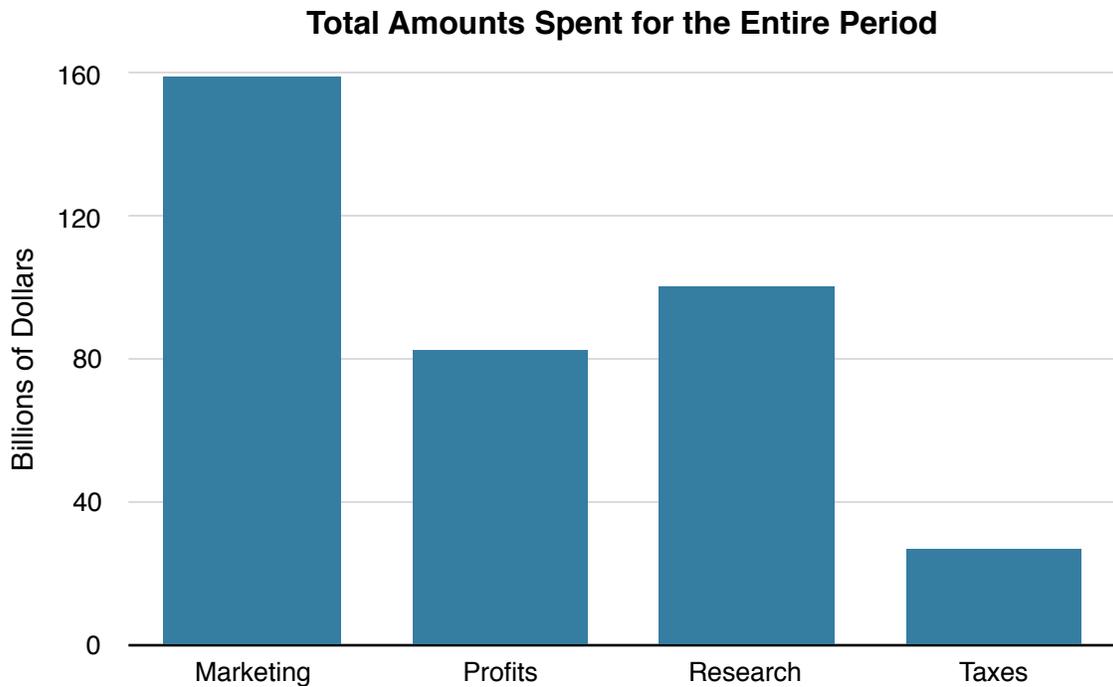


Figure 1: Total amount Merck/Schering Plough earned in profit (net income after taxes) from 2003-2015 compared to how much they spent on research, marketing and taxes.

Proportional Allocation of Revenue 2003-2015

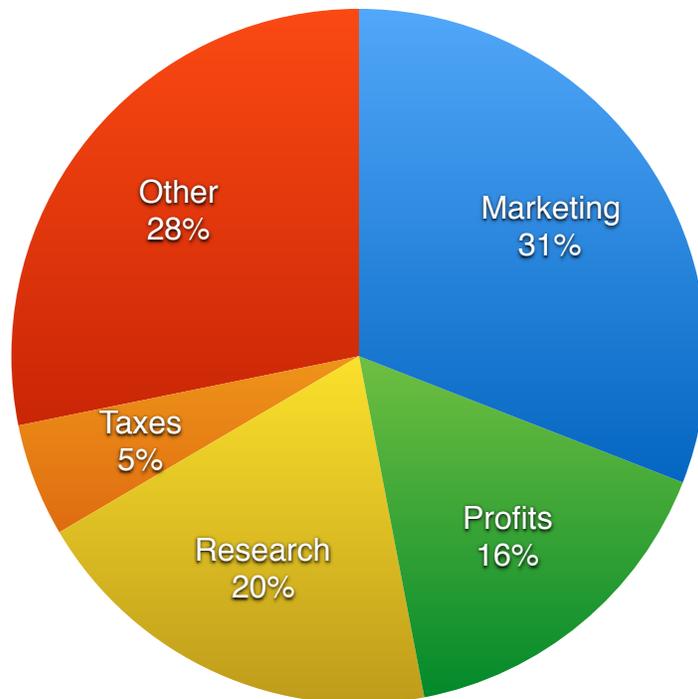


Figure 2: The proportion of Merck/SP's total revenue that was allocated toward research, marketing, taxes and profits.

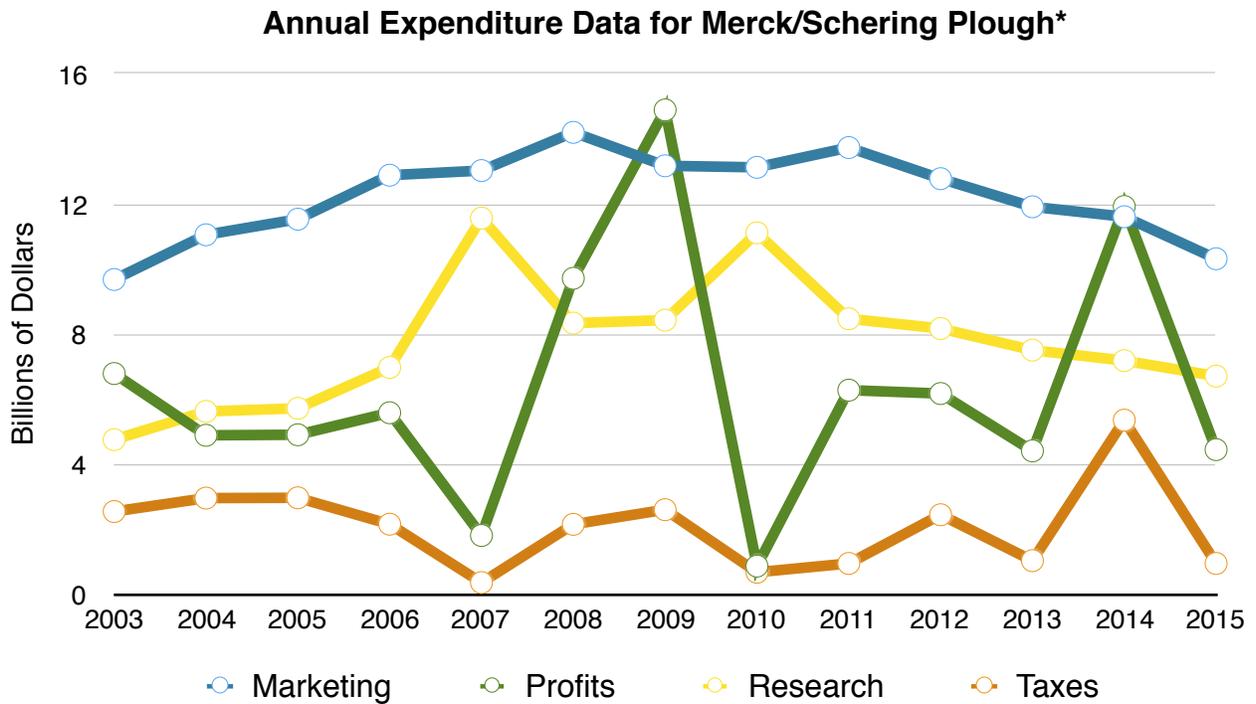


Figure 3: Merck/Schering Plough’s profit compared with amount spent on research, marketing and taxes each year from 2003-2015

Proportion of Revenue from US vs. All Other Countries

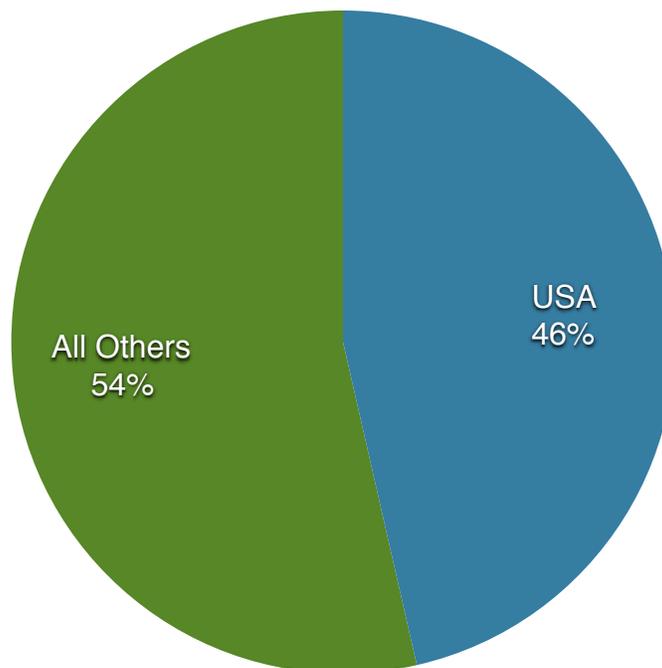


Figure 4: 46% of Merck and Schering Plough’s combined revenue since 2003 has come from sales in the US.

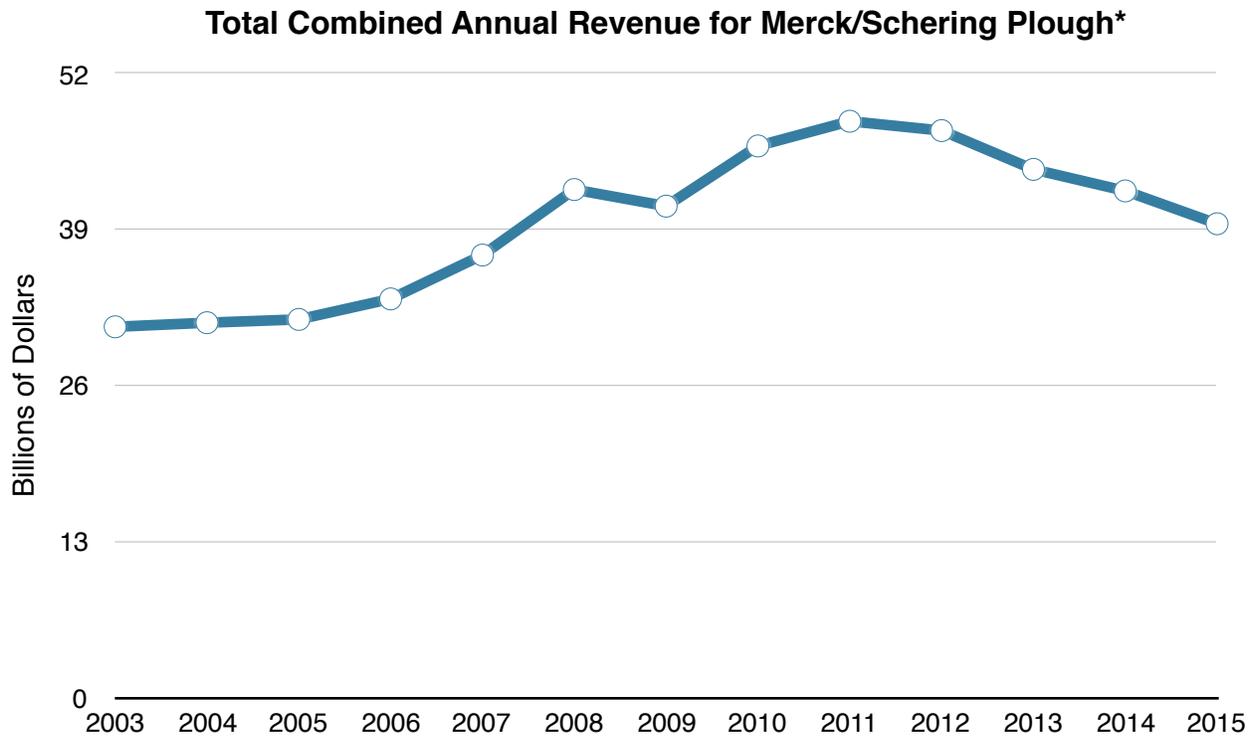


Figure 5: Merck’s revenue has been steadily declining since 2011. Most of the major pharmaceutical companies have seen year over year revenue declines for the past several years. To offset this, these companies have been dramatically raising the prices of all of their medications. The total revenue for 2009 is about \$4 billion low because I don’t have the 4th quarter revenue for Schering Plough for that year.

<http://truecostofhealthcare.net/brand-name-medication-prices/>