

Summary of the financial reports for Roche from 2003-2015

By David Belk

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.

Roche is a Swiss Pharmaceutical Company. Unlike Novartis (another Swiss company) Roche reports their finances in Swiss Franks. Fortunately, Roche provides the average exchange rate of Swiss Franks to Dollars for each year. I kept the numbers in Swiss Franks for this report but converted them to dollars for the overview of all the pharmaceutical companies.

I used the revised amounts reported in the 2007 statement for total revenue, US revenue and the amount spent on research for years 2003-2006. In 2007 Roche also reassigned about 2 billion Swiss Franks originally categorized as marketing into the research and cost of sales budgets for 2006.

I think this reassignment of funds serves as an example of the fact that the pharmaceutical companies have trouble distinguishing what is truly research from what is marketing. Is money spent flaunting the results of a pharmaceutical study really a “research” expense? What about the large sums of money pharmaceutical companies pay doctors to approve of a study? Should that money be considered part of the research budget?

I used the research and marketing numbers from the 2006 report for 2006 because I felt that the 2007 “reassignment” of funds was a bit artificial. This “reassignment” also goes a long way to explaining why the “research” and “marketing” budgets are so much closer too each other from 2007 on than they were before 2006.

Now the composite numbers for Roche from 2003-2015 (CHF = Swiss Franks):

Total Revenue (Sales):	CHF 559 Billion
Total Profit:	CHF 115 Billion
Total Spent on Research:	CHF 106 Billion
Total Spent on Marketing:	CHF 117 Billion
Total Spent in Taxes:	CHF 35 Billion
US Revenue:	CHF 202 Billion
Revenue from All Other Countries:	CHF 357 Billion

http://www.roche.com/com_remuneration.pdf

http://truecostofhealthcare.net/pharmaceutical_financial_index/

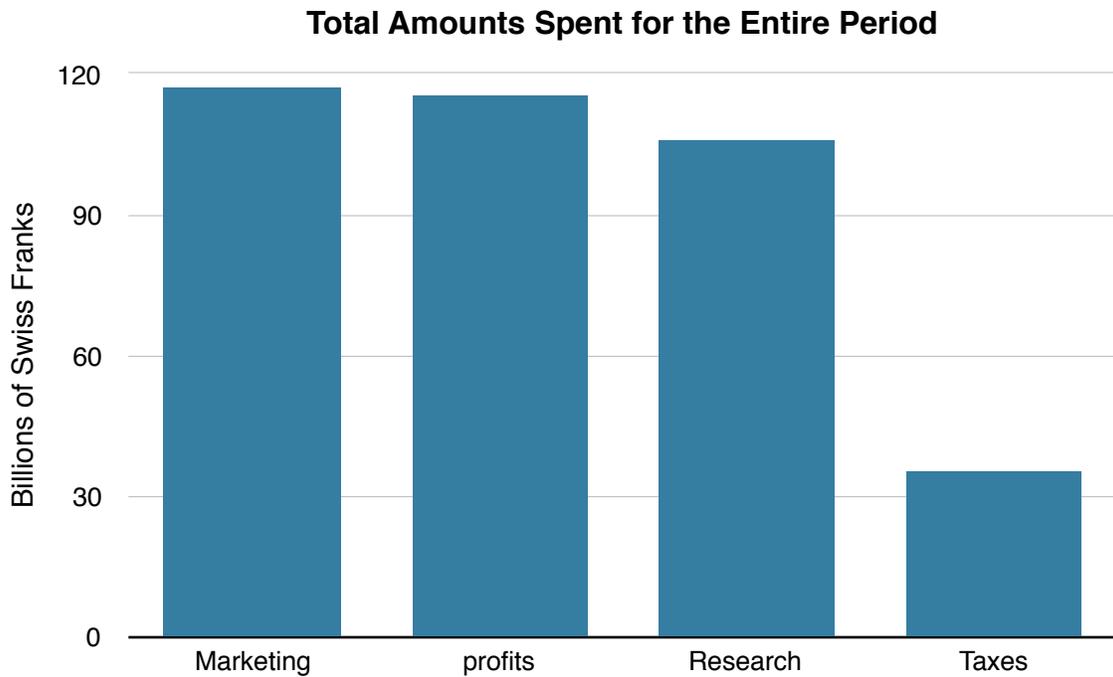


Figure 1: Total amount Roche earned in profit (net income after taxes) from 2003-2015 compared to how much they spent on research, marketing and taxes. Figure 2 (below) shows the proportion of Roche’s total revenue that was allocated toward research, marketing, taxes and profits.

Proportional Allocation of Revenue 2003-2015



Figure 2

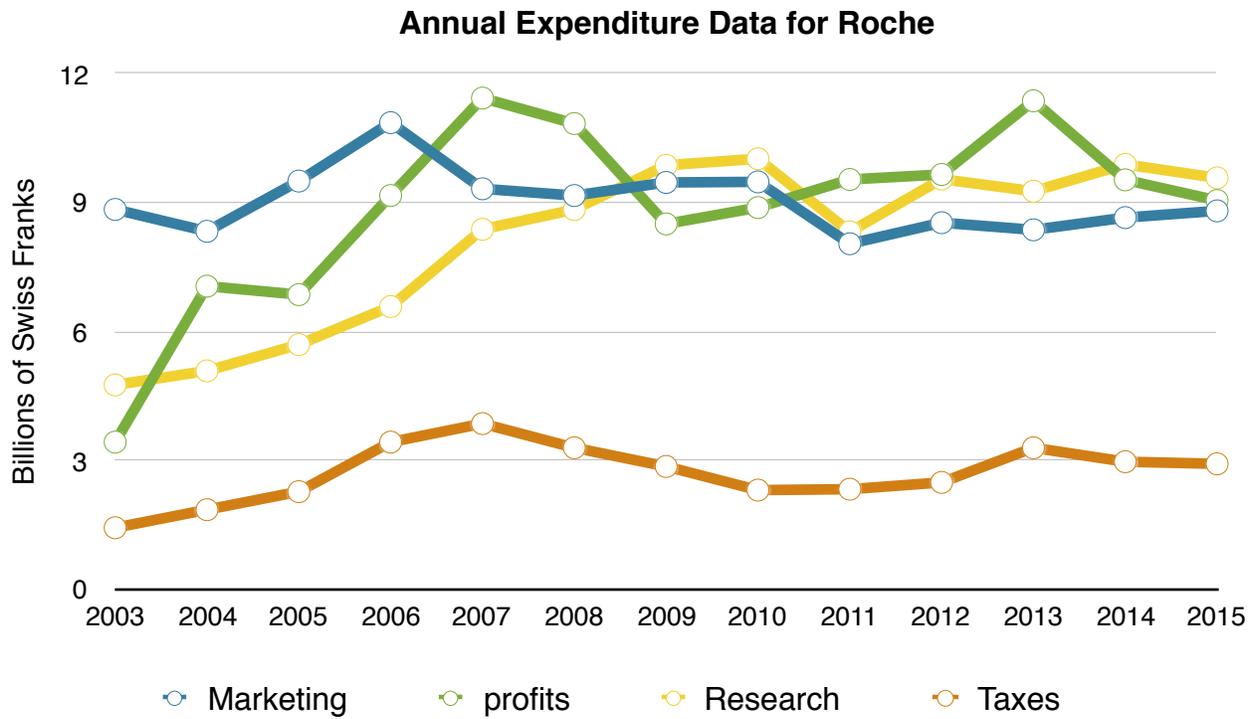


Figure 3: Roche's profit compared with amount spent on research, marketing and taxes each year from 2003-2015.

Proportion of Revenue from US vs. All Other Countries

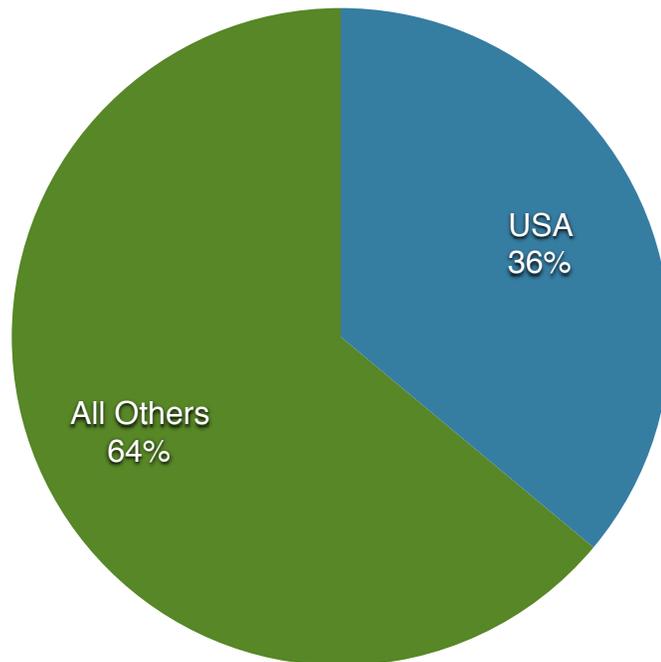


Figure 4: 36% of Roche's revenue since 2003 has come from sales in the US.

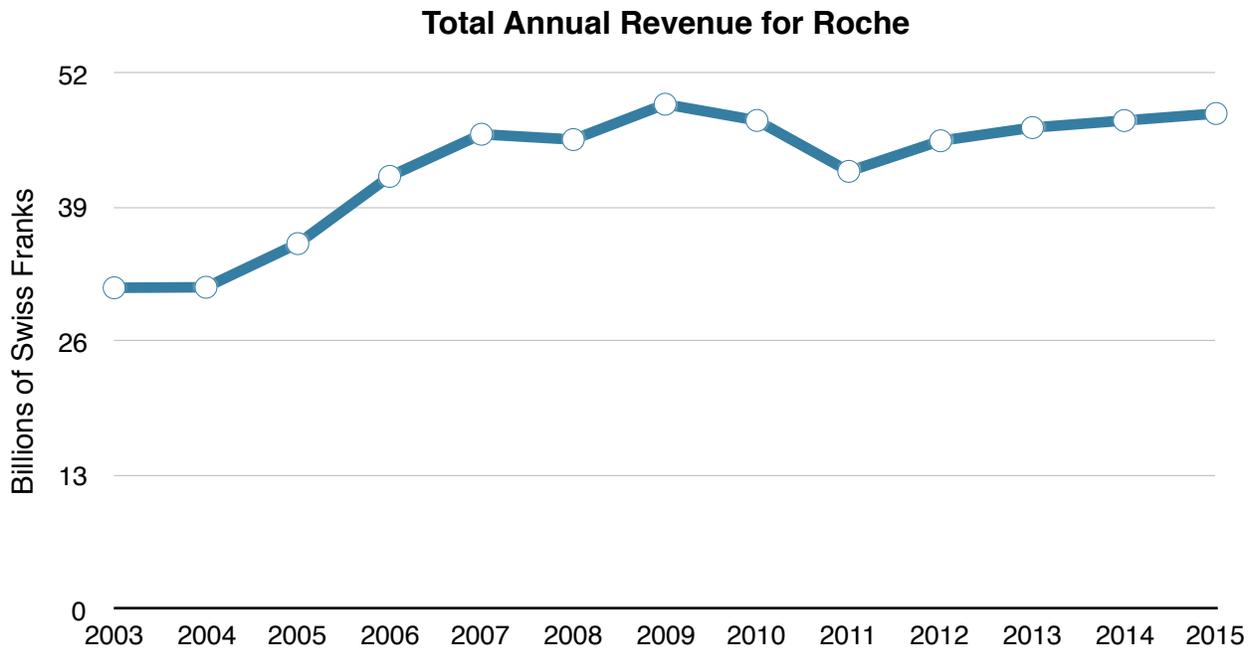


Figure 5: Roche’s annual total revenue has been largely static for more than a decade. Figure 5 shows their annual revenues in Swiss Franks and figure 6 (below) in USD.

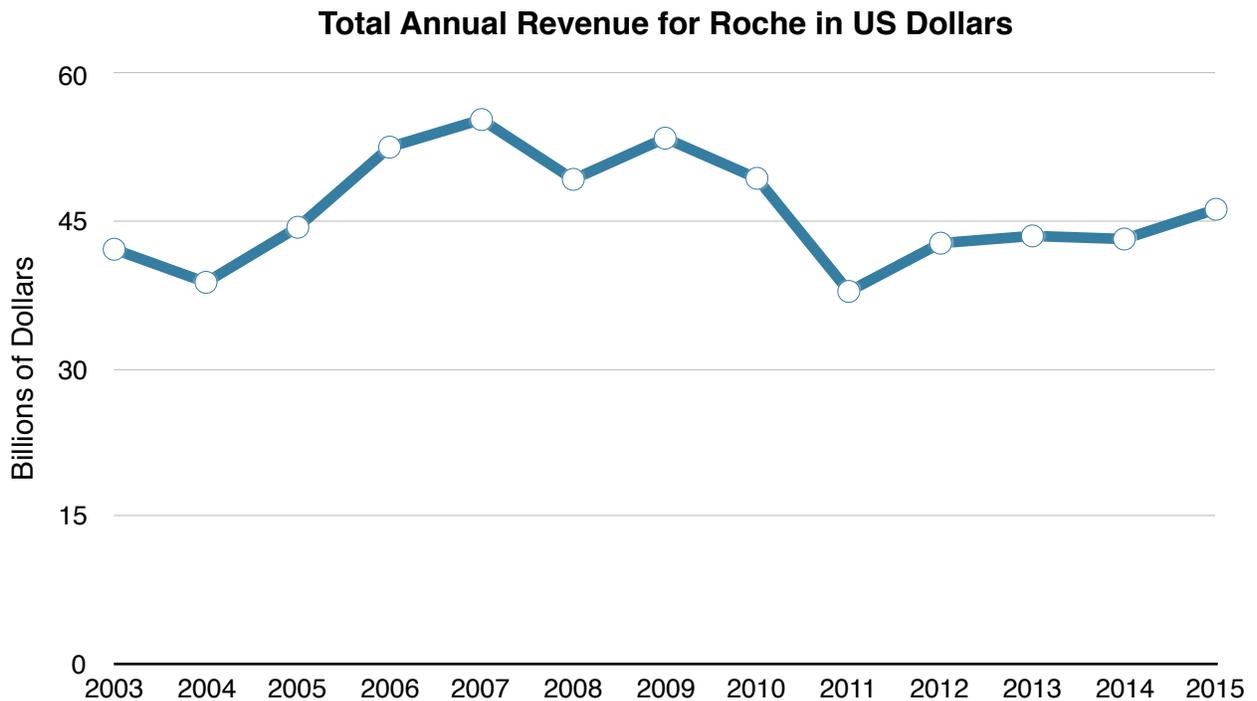


Figure 6: Annual total revenue in US Dollars. Most of the major pharmaceutical companies have had static or declining annual revenues in recent years in spite of the fact that the prices of their medications have risen dramatically in the US.

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