

Summary of the financial reports for Merck from 2010-2017

By David Belk MD

First, some definitions:

-Sales/revenue: For these reports I try to stick to the revenues from pharmaceutical sales only whenever possible. Many of these companies have other product lines such as medical devices, over-the counter (OTC) health aids or nutritional products. When possible, I separate out the revenues from those product sales, though.

-Profit: Net income after taxes. Many companies will add or subtract money from taxes or other revenue/fees from discontinued items to their net income after taxes. 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 might even include such expenses as 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.

-Rebates/Chargebacks: Rebates are payments that go mostly to pharmacy benefit managers (PBMs) in the U.S. These rebates are incentives for the PBMs "prefer" certain medications when deciding which medications to cover. Chargebacks are normally refunds given to medication suppliers to balance the rebates given to the PBMs. Both rebates and chargebacks are normally deducted from the total pharmaceutical revenue of a company initially, and not listed as an expense.

-Revisions: When a figure is revised in a subsequent report it's often because that company divested one or more products by either selling that line to another company or splitting off a new company. When companies do this, they often retroactively deduct the revenues and expenses related to that division from the finances of previous years, but not the profits. This makes year over year comparisons for these companies challenging. For the most part, I only use original data, and not revised data for these reports.

Merck: About 90% of Merck's sales are human pharmaceuticals and the other 10% are animal health products. Roughly 38% of their U.S. pharmaceutical revenue in 2017 came from the sale of three products: the diabetes medication Janvia, the cancer chemotherapy medication Keytruda and the HPV vaccine Gardasil.

Merck has struggled financially relative to other pharmaceutical companies for a number of reasons including the nearly \$5 billion settlement against them in 2007 over the drug Vioxx, their merger with another floundering pharmaceutical company called Schering Plough in 2009 and the fact that they've had very few new products that have sold well in over a decade.

Here are the composite numbers for Merck from 2010-2017:

Total Revenue (Sales):	\$347 Billion
Pharmaceutical Sales Revenue	\$300 Billion
Total Profit:	\$40 Billion
Total Spent on Research:	\$69 Billion
Total Spent on Marketing:	\$93 Billion
Total Spent in Taxes:	\$16 Billion
US Revenue:	\$150 Billion
Revenue from All Other Countries:	\$197 Billion

Proportional Allocation of Revenue 2010-2017

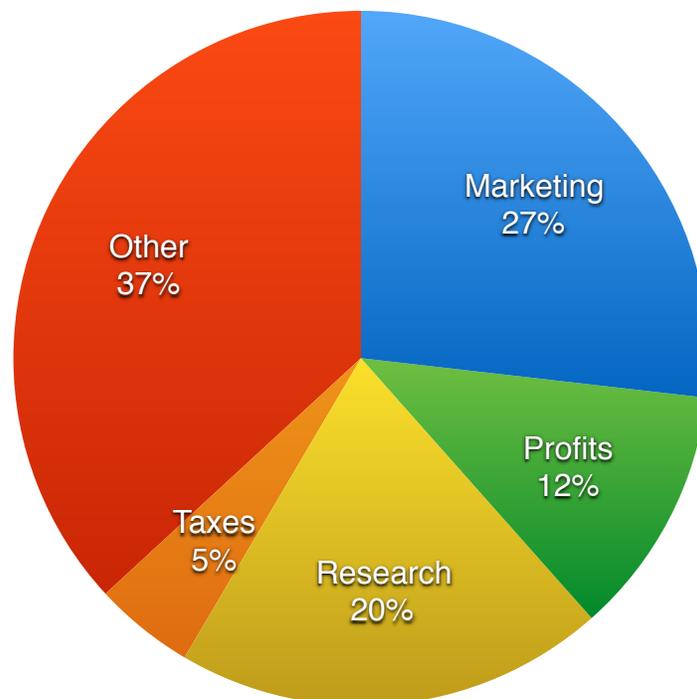


Figure 1: The proportion of Merck's total revenue that was allocated toward research, marketing, taxes and profits.

Proportion of Merck's Revenue from US vs. All Other Countries

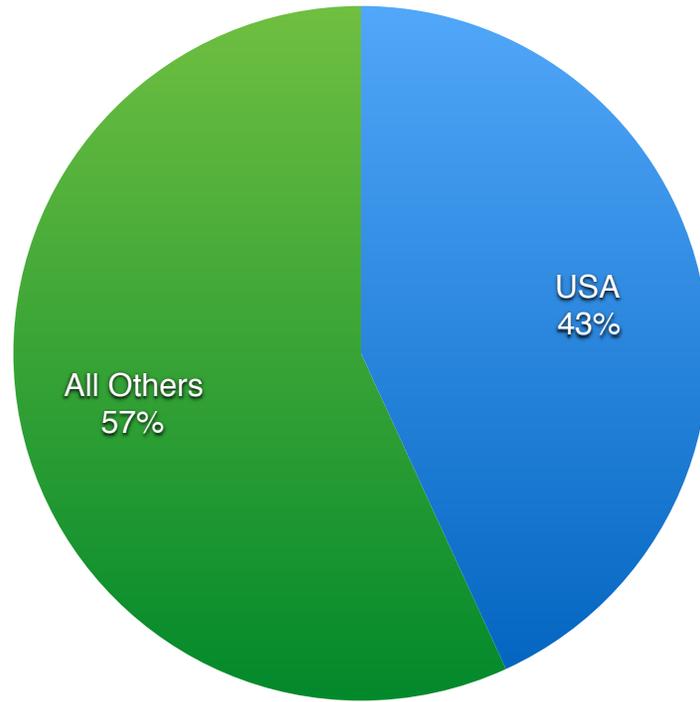


Figure 2: 43% of Merck's revenue since 2010 has come from sales in the U.S.

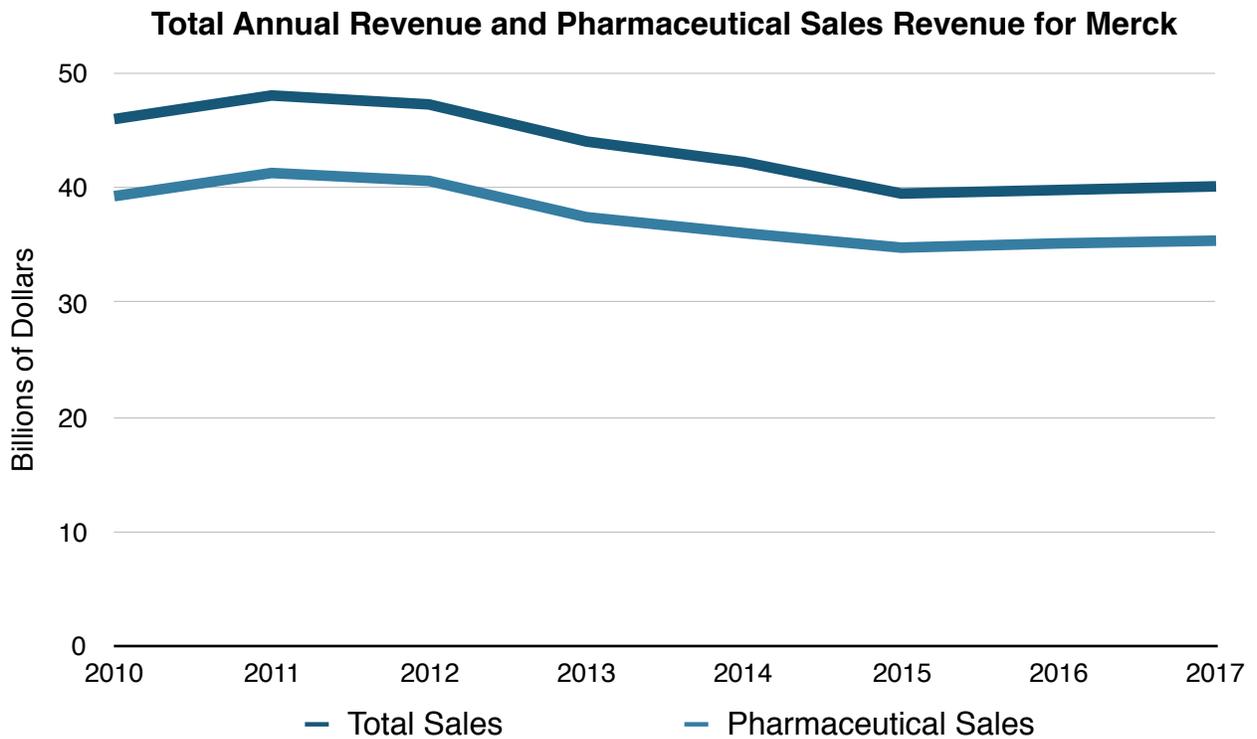


Figure 3: Merck's revenue has been steadily declining since 2011.

Pharmaceutical Revenue in the U.S. and Other Countries vs. Pharmaceutical Rebates in the U.S.

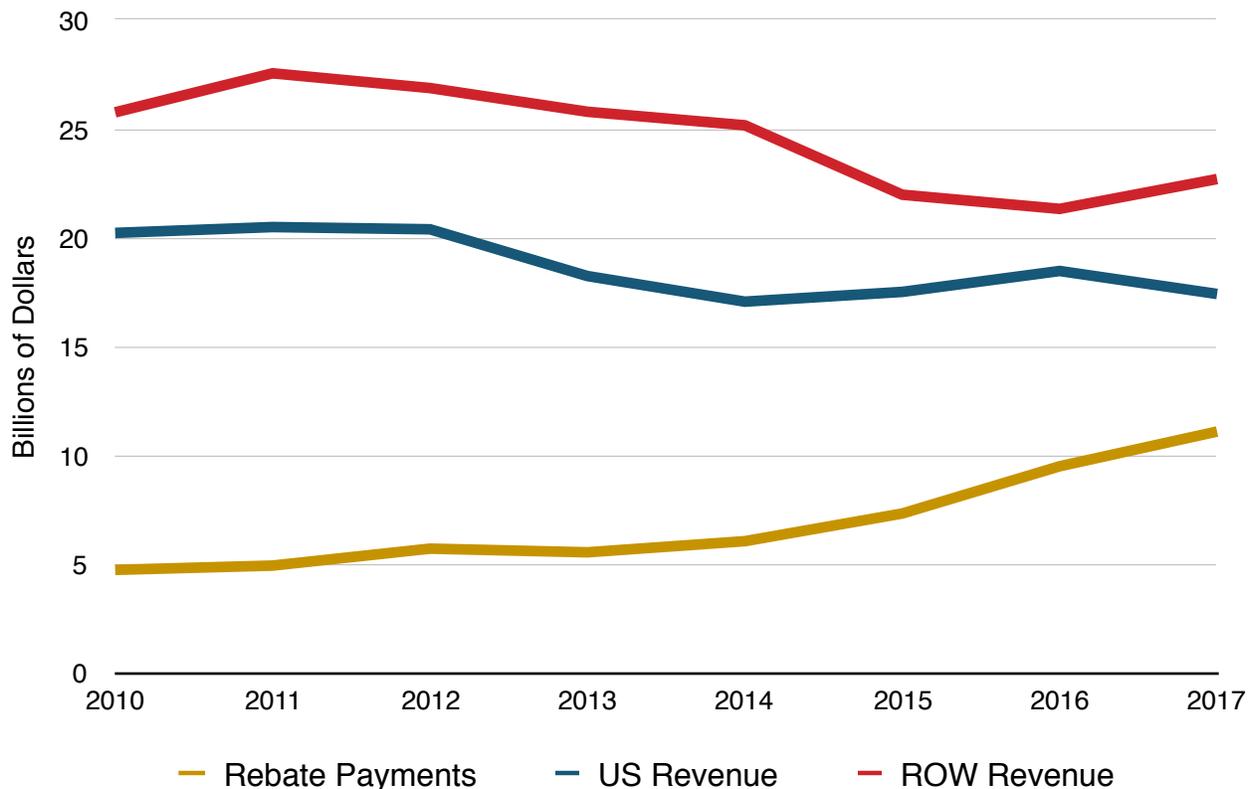


Figure 4: Rebates definitely boost sales for pharmaceutical companies. Increasing rebates given by Merck to PBMs in the U.S. (yellow line) have led to a proportional increase in revenues from U.S. sales (blue line) relative to their sales in the rest of the world (red line).

Total Executive pay for Merck was \$43 million in 2017 with \$17.6 million going to their CEO Kenneth C. Frazier.

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

http://truecostofhealthcare.net/pharmaceutical_financial_index/