

Summary of the financial reports for Roche from 2010-2017

By David Belk

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.

Roche is a Swiss Pharmaceutical Company that began to acquire the South San Francisco based company Genentech in the early 90's. In March 2009 Roche completed their takeover of Genentech in a \$47 billion deal. This purchase proved very wise (and profitable) for Roche since, in 2017, over two third's of Roche's pharmaceutical revenue came from marketing products that were developed by Genentech.

Nearly all of the products Genentech has developed for Roche are complex biological agents used for cancer chemotherapy, immunotherapy or retinal disease. Since there are currently no inexpensive generic versions of any these biological agents, Roche will probably earn steady or growing revenues from these products for years to come.

About 77% of Roche's revenue since 2010 came from pharmaceutical sales while the other 23% was from the sale of diagnostic equipment.

Roche only included the rebate payments and other incentives they paid in their 2016 and 2017 financial statement for the years 2015 through 2017, so the trend in the rebates they paid U.S. PBMs and providers from before then is not available.

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

Total Revenue (Sales):	\$365 Billion
Total Profit:	\$73 Billion
Total Spent on Research:	\$76 Billion
Total Spent on Marketing:	\$68 Billion
Total Spent in Taxes:	\$22 Billion
US Revenue:	\$140 Billion
Revenue from All Other Countries:	\$225 Billion
Pharmaceutical Revenue	\$283 Billion
U.S. Pharmaceutical Revenue	\$122 Billion

Roche's CEO, Severin Schwan was paid 11.64 million Swiss Franks or \$11.47 million in 2016.

<https://www.fiercepharma.com/pharma/roche-and-novartis-ceos-each-nab-almost-12m-francs-2016-pay>

http://truecostofhealthcare.net/pharmaceutical_financial_index/

<http://knowledge.wharton.upenn.edu/article/anatomy-of-a-merger-hostile-deals-become-friendly-in-the-end-right/>

**Proportional Allocation of Revenue
2010-2017**

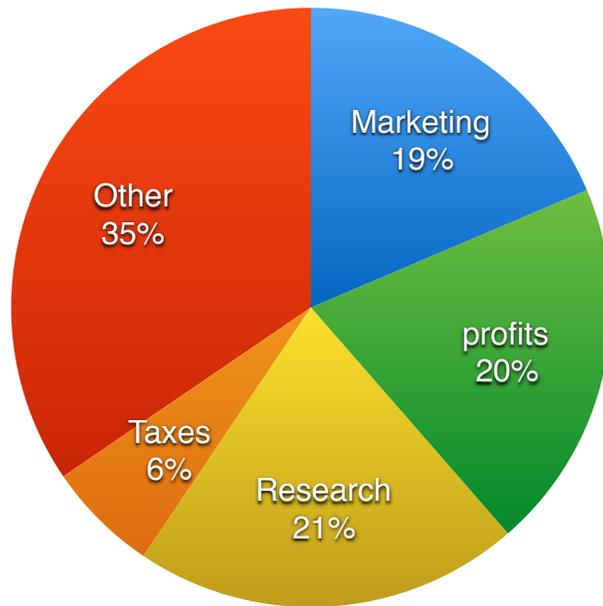


Figure 1: The proportion of Roche's total revenue that was allocated toward research, marketing, taxes and profits.

**Proportion of Roche's Pharmaceutical
Revenue from US vs. All Other
Countries**

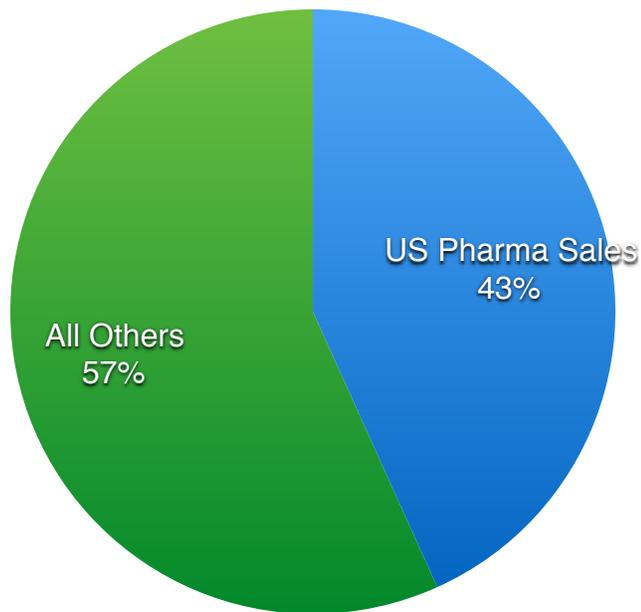


Figure 2: 42% of Roche's pharmaceutical revenue since 2010 has come from sales in the U.S.

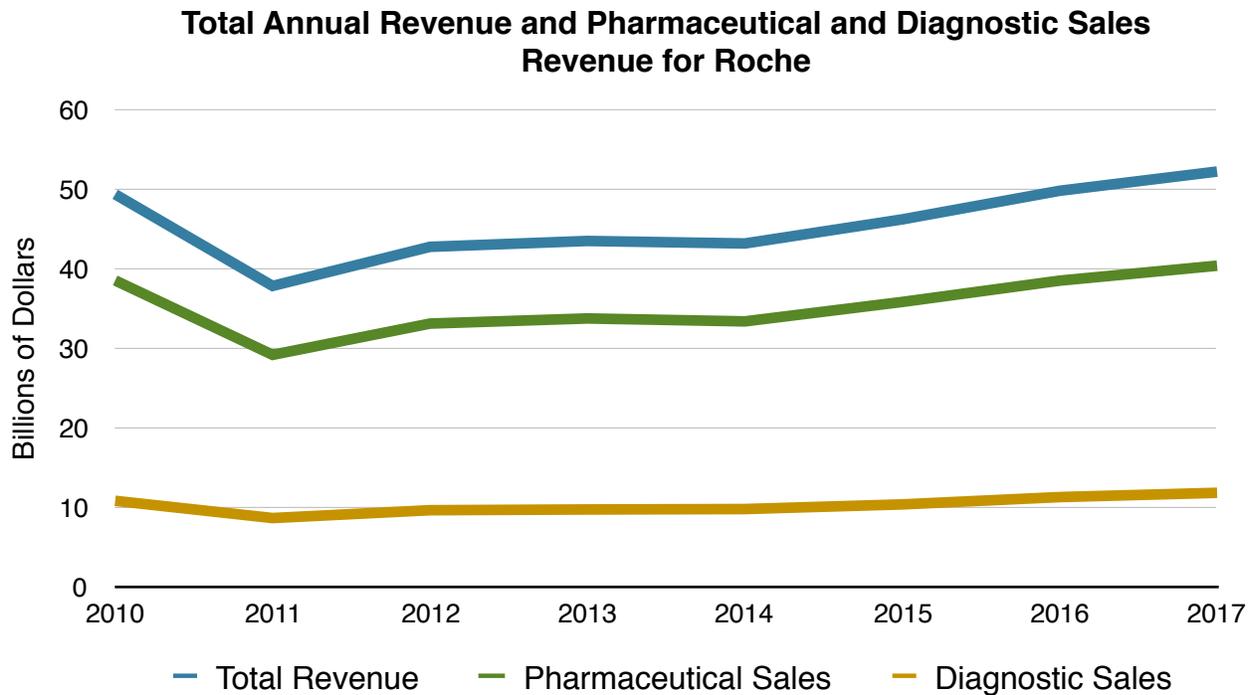


Figure 3: Roche’s annual total revenue has risen somewhat since 2011, driven mostly by an increase in pharmaceutical sales revenue in the U.S. The amount they earned in dollars in 2017 was barely more than what they earned in 2010, though.

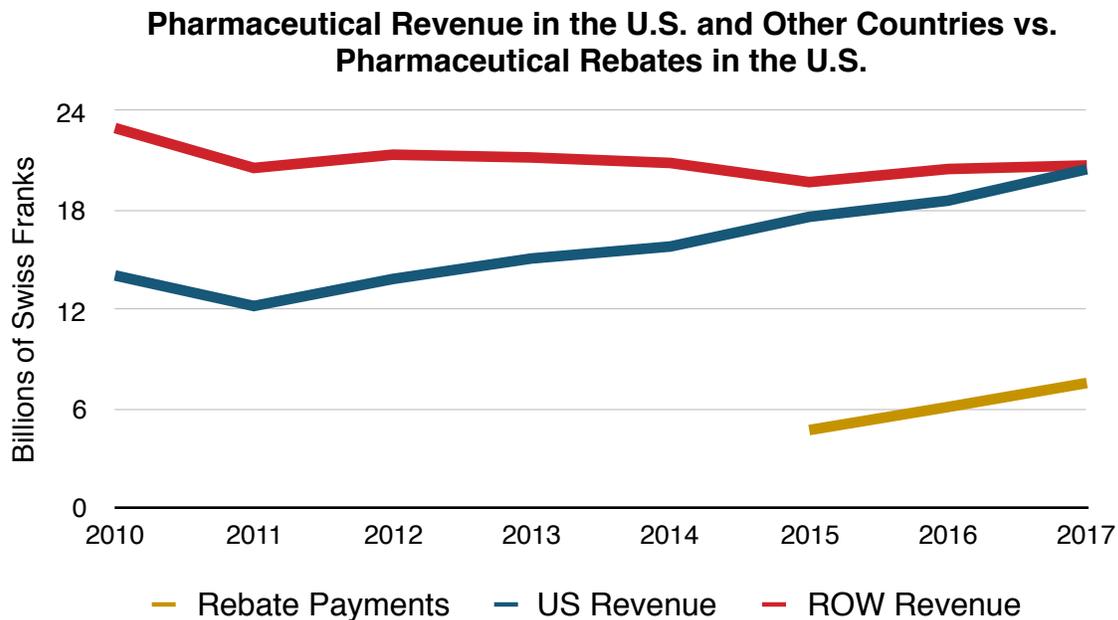


Figure 4: Roche has only provided information about their incentive payments to U.S. pharmacy benefit managers, suppliers and providers since 2015. Still, the trend is obvious. Just since 2015 these incentive payments (yellow line) have nearly doubled and, as a result, Roche’s annual revenues from sales in the U.S. have increased considerably, especially when compared with sales revenues from outside the U.S.