

Merck and Schering-Plough? Big Pharma running scared

Posted Mar 09 2009, 01:29 PM by Kim Peterson



Big Pharma is running scared.

That message is coming across loud and clear, now that [Merck \(MRK\)](#) is buying [Schering-Plough \(SGP\)](#) for \$41.1 billion in cash and stock. It was just a few weeks ago that [Pfizer \(PFE\)](#) hooked up with Wyeth in a \$68 billion deal. And then there's **Roche's** current offer for [Genentech \(DNA\)](#).

Drug companies are rushing into each other's arms these days to unite against some difficult years ahead for the industry. The credit markets are dried up and the political and economic landscape is changing. The mergers are a defensive move as companies find their bottom lines increasingly under assault.

Here are some of the problems drug companies face:

- 1. Patents expiring.** Companies need to find replacements as their drugs lose patent protection. Merck's asthma drug, for example, loses its patent in the next few years, [according to The Economist](#). By buying Schering-Plough, Merck will double (to 18) its number of late-stage development drugs.
- 2. Obtaining financing.** Yes, even well-established pharmaceutical companies are struggling with finding new capital and restructuring debt.
- 3. Costs are too high.** Consolidation allows drug companies to lay off more employees and keep costs in control. Merck is expecting to cut 15% of the positions in the combined company.
- 4. Sluggish sales.** Generics have been killing sales of drugs like Fosamax and Zocor for Merck. And cash-strapped consumers are cutting back on spending, even when it comes to their own prescriptions. Analysts have been pressuring Merck to do a major deal in response to falling sales, [according to The Associated Press](#).

5. Political pressure. We're still unsure where President Barack Obama's administration is headed in terms of health care, but drug companies may be pressured to offer bigger discounts, according to *The Economist*.

Mergers are an easy option in times like these, particularly because valuations are so cheap. They don't fix everything, but they address short-term problems and, in this economy, just surviving the next few years is what's important.

Merck investors weren't exactly rejoicing over the news today. Shares were down nearly 8%, while Schering-Plough shares were up about 10%.

Drugstore Sales Drop Along with Drug Trend: Implications for Retail Pharmacy



In yesterday's [Insights from the 2012 Express Scripts Drug Trend Report](#), I highlight the fact that 2012 spending on traditional drugs dropped for the first time on record.

Last year marked a similar milestone for retail drugstores. For the first time, revenues at U.S. pharmacies and drugstores declined on a year-over-year basis. See the chart below.

Given the superior profitability of new generics, retail pharmacies' top-line pain is being offset with bottom-line joy. But when generic launches slow down in 2016, the pharmacy industry's traditional dispensing profits will be hit hard. Drugstores must either embrace the low-cost generic revolution or figure out how to penetrate the specialty market. Otherwise, they'll find it hard to climb out of the rabbit hole.

GO ASK ALICE

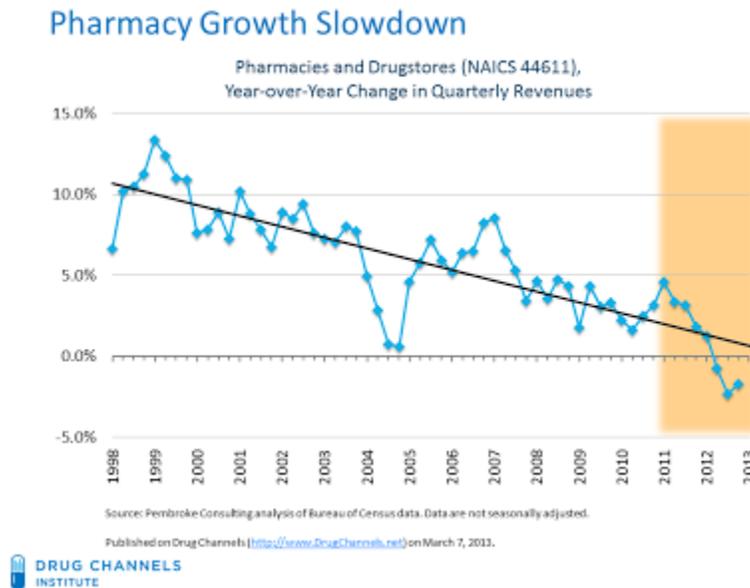
NAICS (North American Industry Classification System) is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. Pharmacies and drugstores are classified in [NAICS 446110](#).

The U.S. Census Bureau's [Monthly Retail Trade Report](#) collects and reports monthly sales data for the retail trade NAICS sectors (44-45). These government-collected data provide the most complete picture of revenues at all store-based retail drugstores, not just the larger public companies. Note that these data exclude non-pharmacy retail formats (supermarkets and mass merchants) and mail pharmacies but include retail revenues from non-prescription front-end sales.

I aggregated the monthly data (not seasonally adjusted) into calendar quarters and computed the year-over-year change in total revenues.

DOWN, DOWN, DOWN

The chart below shows the sales decline at pharmacies and drugstores. I added a linear time trend (R-squared = 70%). In 2011, revenue growth started slowing. In the second-quarter of 2012, year-over-year growth became negative.



The substitution of generic drugs for brand-name drugs is the biggest factor behind pharmacies' revenue slowdown. Just compare the revenue chart above to [the traditional medications drug trend](#).

Nobody asks the simple question 'do synthetic drugs really work vs Placebo, work means promote health not just symptom control addiction". the answer is that they do not the major false belief of our day is that men can make things compatible with nature. Our society has learned that synthetic foods are bad, they produce side effects and disease. The best cook uses the finest quality natural products, he knows the problems of synthetics. Society is waking up to the fact that it is also true for our

medicines, but no news service will cover this message. No reporter will cover this, no scientist research this. Money rules. It is questionable if this comment will not be displayed. Nobody researches natural medicines, no one questions the corruption of the drug companies, and the FDA looks the other way as Big tobacco, Big Sugar, and especially Big Pharm kill millions of millions. Medicines should not kill. The FDA focuses on eliminating drugless therapies. That's the problem, nature is the answer. Health care is not for health, it is disease care. Disease is promoted through dependency on synthetic medications, bad diet, smoking, excess stress, and complications from the drugs. The system makes money on disease, not on health. What we have is Disease care Profit care. What we need is this message to be posted, fat chance.