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PHARM EXEC

# INDUSTRY AUDIT

+ Company of the Year

2008

For the seventh year, *Pharm Exec* invited Professor **Bill Trombetta** of St. Joseph's University to evaluate and rank 16 top drugmakers against a dozen crucial business metrics. The highlights: **Amgen** falls out of the top four for the first time, while **Lilly** makes the grade, **Johnson & Johnson** and **Genentech** both deliver their usual strong performances, and a dark horse comes out of nowhere to win company of the year

**P**harm Exec's seventh annual Industry Audit analyzes the 2007 performance of 16 companies that are publicly traded on stock exchanges and file 10-K reports with the Securities and Exchange Commission (or 20-F reports in the case of foreign companies). As in past years, the Audit goes beyond standard accounting and financial statements, drawing on newer and—arguably—more meaningful metrics. Data were gathered primarily from 10-Ks and 20-Fs. In addition, we consulted databases such as Yahoo! Finance and secondary sources such as *The Wall Street Journal*, *The New York Times*, *Business Week*, *Fortune*, *Forbes*, and *In Vivo*.

## METHODOLOGY

As usual, we omit important drugmakers that for one reason or another are difficult to compare with the rest of the group: extremely diversified firms (such as Procter & Gamble), narrow-focus companies (such as Novo Nordisk), companies that primarily manufacture generics (such as Teva), firms with unconventional ownership structures (like Roche), and companies whose financial reporting doesn't mesh with US

standards (such as Japanese drug companies).

Companies were assigned scores based on 10 metrics with weights attached to them. Not all metrics are equal: for example, Earnings per Share is a widely used performance metric, but it does not rise to the same level of import as Enterprise Value or Gross Margin.

In each scored metric, a company receives 16 points for first place, 15 for second, 14 for third, and so forth; this score is then multiplied by the weighting factor. For example, Schering-Plough comes in second in Percentage Change in Drug Sales, which has a weight of 5. Its raw score on that metric is 15, and its weighted score is  $15 \times 2 = 30$ .

**Something Old, Something New** In its seventh year, the Industry Audit remains, like the drug industry itself, a work in progress. This year, we dropped several metrics, including Return on Invested Capital and Revenue From Intellectual Assets. We also excluded the R&D to Sales ratio on the premise that R&D spend no longer seems to drive performance, though we continue to provide a chart showing what percentage of sales each of the 16 companies spend on R&D.

**TOTAL REVENUE**

**WEIGHT = 0**  
2007 global sales

1	J&J	\$61.1 B
2	Pfizer	\$48.4 B
3	GSK	\$45.8 B
4	Novartis	\$38.9 B
4	Sanofi-Aventis	\$38.9 B
6	AstraZeneca	\$26.5 B
7	Abbott	\$25.9 B
8	Merck	\$24.2 B
9	Wyeth	\$22.4 B
10	BMS	\$19.4 B
11	Lilly	\$18.6 B
12	Amgen	\$14.8 B
13	Schering-Plough	\$12.7 B
14	Genentech	\$11.7 B
15	Forest	\$3.4 B
16	Biogen Idec	\$3.2 B
	AVERAGE	\$26.2 B

**PERCENTAGE CHANGE IN SALES, 2006-2007**

**WEIGHT 5**  
Genentech boasted the biggest growth in sales for the fourth year running.

1	Genentech	21.0%
2	Schering-Plough	19.8%
3	Biogen Idec	18.5%
3	Lilly	18.5%
5	Forest	17.2%
6	Sanofi-Aventis	15.4%
7	Abbott	15.1%
8	J&J	14.6%
9	AstraZeneca	10.5%
10	Wyeth	10.3%
11	BMS	8.0%
12	Merck	7.1%
13	Novartis	6.0%
14	Amgen	3.5%
15	Pfizer	0.8%
16	GSK	0.7%
	AVERAGE	12.0%

New this year, though not considered in the scoring, is Sales, General & Administrative. The exact weightings of individual metrics can be found (in red) in their respective tables.

This year, we also indicate the general change (up or down) of the individual metric compared to last year's. In the past, we simply ranked a firm on a metric, like Profit to Sales; this year, we show how the firm fared on that metric relative to 2006.

**MACRO BENCHMARKS**

Before honing in on the industry data, it is informative to compare the drug industry, and these 16 firms specifically, against certain macro benchmarks. Let's start with the key metrics for how the US economy did in 2007 (not all that great):

- » Nasdaq Composite: up 9.8 percent
- » Dow Industrials: up 6.4 percent
- » Standard & Poor's 500: up 3.5 percent
- » Next factor in the relatively mild (for a trillion-dollar economy) US growth rate: up 3 percent. That adds up to an overall performance that should not be hard to beat. But the drug industry struggled nonetheless in 2007, as IMS Health reports:
- » Global growth in drug sales: up 6.4 percent
- » US growth in drug sales: up 3.8 percent.

This is, of course, a far cry from Big Pharma's heady days of double-digit growth. These sobering statistics reflect a dramatically new market environment that calls for new strategic approaches to competition—much as the transformation from the 20th century's massive global scale wars to the 21st century's local rapid-response conflicts requires fundamentally new ways of doing battle. (The medical device industry has yet to hit this strategic disruption point. If global pharma sales hover at \$700 billion, devices may reach a little under \$100 billion, but their time is coming. Drug-eluting

stents are the industry's single blockbuster.)

And on that cheerful note, let's get down to business.

**NOTES ON THE METRICS**

**Total Revenue/Change in Revenue**

With its massive \$16 billion purchase of Pfizer's OTC business, Johnson & Johnson is now the industry's top revenue producer, with over \$61 billion in sales; Biogen Idec comes in 16th, with \$3.2 billion. But total revenue is not worth the paper it is printed on, just like the numbers for NRx (new prescriptions) and TRx (total prescriptions) are not worth the paper they are printed on. It is the trend in revenue that is a much more important metric ("grow or die"). And like last year, Genentech sets the pace for revenue growth with 21 percent—more than five times the industry average of 3.8 percent. While Pfizer and GSK continue to struggle, with essentially no growth from 2006 to 2007, Lilly's nearly 19 percent growth is impressive.

In a marketplace where growth is difficult, especially for the major pharmas, firms that grow organically rather than by way of mergers and acquisitions will truly impress. Pfizer, currently at \$50 billion in revenue, will be hard pressed to achieve its traditional double-digit growth. Where will the next \$5 billion come from for Pfizer—or GlaxoSmithKline or Sanofi-Aventis? These drug giants have their work cut out for them.

But the problem is not insuperable. General Electric, currently at \$180 billion in revenue, typically grows 5 percent to 10 percent growth rate. Procter & Gamble grew 12 percent last year with "innovative" diapers, deodorants, toothpaste, and Swiffer dusters and mops. Toyota grew 7 percent—and is poised to displace General Motors as the biggest auto company in the world. These firms would view Big Pharma's sales growth challenges as a day at the beach.

### ENTERPRISE VALUE (US \$BILLIONS)

WEIGHT = 0

J&J became the market-cap behemoth following its giant purchase of Pfizer's OTC biz.

1	J&J	\$190.6
2	GSK	\$128.4
3	Pfizer	\$124.2
4	Novartis	\$109.6
5	Sanofi-Aventis	\$105.9
6	Abbott	\$94.2
7	Merck	\$79.3
8	AstraZeneca	\$71.0
9	Genentech	\$62.8
10	Wyeth	\$58.3
11	Lilly	\$52.9
12	Amgen	\$48.8
12	BMS	\$46.6
14	Schering-Plough	\$41.4
15	Biogen Idec	\$18.5
16	Forest	\$8.8
	AVERAGE	\$77.6

### CHANGE IN ENTERPRISE VALUE 2006-2007

WEIGHT = 7

Only four firms created shareholder value last year.

1	Biogen Idec	25.0%
2	Schering-Plough	16.3%
3	J&J	7.7%
4	Sanofi-Aventis	1.8%
4	AstraZeneca	-1.8%
6	Abbott	-5.2%
7	Lilly	-7.2%
8	Wyeth	-15.2%
9	Merck	-15.3%
10	Novartis	-18.3%
11	GSK	-19.4%
12	BMS	-21.3%
13	Pfizer	-23.5%
14	Genentech	-28.0%
15	Amgen	-29.7%
16	Forest	-41.7%
	AVERAGE	-10.6%

### ENTERPRISE VALUE/ SALES 2007

WEIGHT = 7

Not a single company improved on this "future prospects" metric.

1	Genentech	5.84
2	Biogen Idec	5.44
3	Abbott	3.52
4	Amgen	3.32
5	Merck	3.27
6	J&J	3.06
7	GSK	2.88
7	Schering-Plough	2.88
9	Novartis	2.76
10	Lilly	2.72
11	Pfizer	2.60
12	Wyeth	2.56
13	Sanofi-Aventis	2.36
13	Forest	2.36
15	AstraZeneca	2.35
16	BMS	2.30
	AVERAGE	3.14

**Enterprise (or Shareholder) Value** A firm either creates shareholder value or destroys it. Our metrics show absolute shareholder value, changes in shareholder value from 2006 to 2007, and which of our 16 companies look like they have their best days ahead of them.

J&J has the highest Enterprise Value (EV) as of April 14-15, 2008, based on data in Yahoo! Finance. Absolute EV tracks the scale of operations, so it is no surprise that the drug company with the highest sales revenue (\$61 billion) would also top the list in EV. But notice how close Pfizer was to J&J in EV in 2006; for 2007, J&J has surged 53 percent higher than Pfizer.

Only four of drugmakers actually created shareholder wealth in 2007: J&J, Sanofi-Aventis, Schering-Plough, and Biogen Idec, with Biogen Idec coming in first with a 25 percent increase in shareholder value; the 12 remaining pharmas all destroyed shareholder value in 2007. This performance is reinforced when we look at the ratio of Enterprise Value to Sales (EV/S). Not a single company improved in this metric. Genentech still gets the most excitement in terms of better days ahead, even though its EV/S slipped by almost half from 2006, followed closely by Biogen Idec.

Our 16 companies lost, on average, 11 percent of their shareholder value in 2007. More than half lost more than 15 percent, with all of last year's top-four companies—Genentech, Amgen, Forest, and Merck—experiencing dramatic decreases in shareholder wealth in 2007, as did Pfizer, GSK, Novartis, Bristol Myers-Squibb, and Wyeth.

**Gross Margin** This metric reflects pricing power—or as the Sage of Omaha, Warren Buffett, calls it, "the moat." A firm's fixed assets, property, plant, and equipment are the castle; protecting the castle is the moat: those things that serve as barriers to entry and protect the castle. One of the most important is pricing power. Gross Margin (GM) equals Sales minus Cost of Goods Sold. So GM re-

### GROSS MARGIN

WEIGHT = 5

The nosebleed prices of their drugs keep the three biotechs atop this list.

1	Biogen Idec	89.6%
2	Genentech	86.6%
3	Amgen	82.7%
4	AstraZeneca	79.0%
5	Forest	78.5%
6	Lilly	77.2%
7	Pfizer	76.8%
7	GSK	76.8%
9	Merck	74.6%
10	Sanofi-Aventis	74.2%
11	Wyeth	71.8%
12	Novartis	71.6%
13	J&J	70.9%
14	BMS	67.8%
15	Schering-Plough	65.2%
16	Abbott	55.9%
	AVERAGE	74.4%

### CHANGE IN GROSS MARGIN

WEIGHT = 0

Note Pfizer's slowdown and Genentech's takeoff.

1	Genentech	6.9%
2	AstraZeneca	1.8%
3	Merck	1.6%
4	BMS	1.5%
5	Sanofi-Aventis	1.1%
6	Lilly	0.0%
7	Schering-Plough	0%
7	Forest	0%
9	Biogen Idec	0%
10	Novartis	-0.1%
11	Abbott	-0.7%
12	Wyeth	-1.0%
13	J&J	-1.3%
14	GSK	-2.0%
15	Amgen	-3.0%
16	Pfizer	-8.7%
	AVERAGE	-0.2%



## DR. BILL'S HALL OF FAME

Regular readers of our annual Industry Audits have come to know that I have a special place in my heart for double threats. It is difficult enough for a firm to excel on either Margin Management (Profit to Sales) or Asset Management (Sales to Assets). When a drug-maker does well on both, that is newsworthy. These fab five firms win a place in our Hall of Fame based on their notable 2007 Margin Management and Asset Management:

	MARGINS	ASSETS
Genentech	2nd	8th
Biogen Idec	3rd	1st
AstraZeneca	4th	9th
GSK	7th	4th
Forest	8th	2nd

By excelling in both areas, these companies earn their stripes as the top five performers on the metric Return on Assets.

## R&D SPEND TO SALES

WEIGHT=0

Biogen Idec plowed the most revenue back into R&D.

1	Biogen Idec	29.2%
2	Forest	27.3%
3	Schering-Plough	23.1%
4	Amgen	22.1%
5	Genentech	20.8%
6	Merck	20.2%
7	Lilly	18.7%
8	BMS	16.9%
9	Pfizer	16.7%
10	Novartis	16.4%
11	Sanofi-Aventis	15.4%
12	AstraZeneca	15.3%
13	Wyeth	14.5%
13	GSK	14.5%
15	J&J	12.6%
16	Abbott	9.6%
	AVERAGE	18.3%

flects a firm's ability to control its cost of goods, or active proprietary ingredients (API), and its ability to hold, or even raise, price in a hostile marketplace.

Topping the GM list is Biogen Idec at 89.6 percent, reflecting its ability to raise prices on its flagship drug for multiple sclerosis, Avonex (interferon beta-1a). Nor is it any surprise that the next two nosebleed pricing firms are also biotechs: Genentech and Amgen. Overall, GM dropped slightly from 75.2 percent in 2006 to 75 percent in 2007, with Abbott trailing the pack at 55.9 percent. But Pfizer took the biggest hit on GM, with a drop of 8.7 percent, while Genentech was the biggest gainer, with a growth of 6.9 percent. Again, the ability to raise prices in a hostile marketplace cannot be overestimated.

**R&D Spend/Sales** This year we did not include this metric in the final scores. It's not that R&D is no longer important, but that innovation can take many forms other than that of a technically new product, as a recent *BusinessWeek* report on innovation suggests. In a joint study with the Boston Consulting Group, surveying more than 1,000 corporate CEOs, not one drugmaker ranked among the top 25 innovative firms in the world. This was truly a slap in the face for an industry that purports to wear innovation on its sleeve. Apple ruled as number one, but Apple has one of the lowest R&D spend ratios in any industry—3 percent of sales. Innovation can take the form of new ways to deal with customers (Starbucks) and new ways to do business with suppliers (Toyota).

Spending on R&D is compellingly, intuitively rational. Manufacturing may be the key to operational excellence, but R&D is what unlocks innovation. That said, companies need to beware of its siren call. A top pharma CEO recently railed against the "high" prices of intellectual prowess provided by high tech firms, and professed to be puzzled by the absence of opprobrium heaped on these very expensive vendors. As reported in

## PROFIT TO SALES

WEIGHT=3

Despite its woes, pharma still boasts one of industry's best profit margins.

1	Amgen	44.7%
2	Genentech	43%
3	Biogen-Idec	41.9%
4	AstraZeneca	41.5%
5	Pfizer	40%
5	Sanofi-Aventis	40%
7	GSK	37%
8	Forest	34.3%
9	Merck	34%
9	Wyeth	33%
11	Lilly	32%
12	J&J	30.4%
13	BMS	27%
14	Novartis	26%
15	Abbott	26%
16	Schering-Plough	17%
	AVERAGE	34.2%

## CHANGE IN PROFIT TO SALES

WEIGHT=0

Sanofi and Lilly led six pharmas in increased P/S.

1	Sanofi-Aventis	207.7%
2	Lilly	60%
3	BMS	17.4%
4	AstraZeneca	15%
5	Wyeth	3.1%
6	Forest	3%
7	J&J	2%
8	Genentech	1.9%
9	Amgen	1.1%
10	GSK	-2.6%
11	Pfizer	-4.8%
12	Novartis	-7.1%
13	Abbott	-7.1%
14	Schering-Plough	-12.8%
15	Merck	-27.7%
16	Biogen Idec	-38.7%
	AVERAGE	13.1%



### SALES TO ASSETS

WEIGHT = 5

This metric shows how well a firm puts its assets to use.

1	Biogen Idec	\$1.34
2	Forest	\$0.94
3	J&J	\$0.76
3	GSK	\$0.74
5	BMS	\$0.74
6	Lilly	\$0.70
7	Abbott	\$0.65
8	Genentech	\$0.61
9	AstraZeneca	\$0.54
10	Wyeth	\$0.52
10	Novartis	\$0.52
12	Merck	\$0.50
13	Schering-Plough	\$0.44
14	Amgen	\$0.43
15	Pfizer	\$0.42
16	Sanofi-Aventis	\$0.38
	AVERAGE	\$0.64

### CHANGE IN SALES TO ASSETS

WEIGHT = 0

Biogen Idec upped the average.

1	Biogen Idec	500%
2	GSK	61.9%
3	Sanofi-Aventis	15.1%
4	BMS	5.6%
5	Abbott	5.0%
6	Amgen	0.9%
7	J&J	0.0%
7	Pfizer	0.0%
7	Merck	0.0%
10	Genentech	-0.9%
11	Novartis	-3.8%
12	Wyeth	-6.1%
13	AstraZeneca	-7.3%
14	Forest	-9.2%
15	Lilly	-28.0%
16	Schering-Plough	-34.0%
	AVERAGE	31.2%

Forbes, The Wall Street Journal, and BusinessWeek, the iPod's gross margin is 20 percent; Apple's basic computer business sports a gross margin of 30 percent. Microsoft and Google had profit/sales margins of 26 percent and 24 percent, respectively, in 2007. Compare these markups and profit margins to the nosebleed prices of Amgen, Biogen Idec, and Genentech, throw in the markups of "stealth" pharmas such as Gilead and Genzyme, and it is hard not to conclude that complaining by the drug industry about the "high" prices and profits of other industries is not a wise move. Interestingly, the pharma exec who made this remark received a nice compensation package notwithstanding his firm's experiencing shareholder value destruction. That narrows it down to only about 100 drug companies.

When looking over these ratios, keep in mind that (unless otherwise indicated) we are using a firm's total sales, not just drug sales, so the lower-than-average spend ratios of J&J (12 percent), GSK (14 percent), Abbott (10 percent), and Wyeth (14 percent) may understate the situation, because the R&D spend is divided by a gross-revenue denominator.

**The Profit Margin** Despite its apparent stagnation, pharma remains one of the most profitable sectors in all of industry. We calculate Profit to Sales (P/S) by taking the EBITDA (earnings before interest, taxes, depreciation, and amortization) found in Yahoo! Finance as of April 14–15, 2008, and dividing it by sales revenue. Again, not surprisingly, the three biotechs, Amgen, Genentech, and Biogen Idec sport the highest profit margins, as befits their stratospheric prices. A bit more than half of the 16 had increases in profit margin, with Sanofi and Lilly reporting extraordinary lifts.

**Sales/Assets:** This is the Rodney Dangerfield metric: It gets no respect. There are two basic ways to make money—margin management and asset management—and when multiplied together, they result in a very important metric: Profit to Assets (P/A), or Return on As-

### PROFIT TO ASSETS

WEIGHT = 5

This is the uber metric for money-making prowess.

1	Biogen Idec	56.1
2	Forest	32.3
3	GSK	27.6
4	Genentech	26.6
5	J&J	22.9
6	AstraZeneca	22.5
7	Lilly	22.4
8	BMS	19.9
9	Amgen	18.8
10	Wyeth	17.3
11	Merck	17.2
12	Abbott	17.1
13	Pfizer	16.9
14	Sanofi-Aventis	15.3
15	Novartis	13.6
16	Schering-Plough	7.4
	AVERAGE	22.1

### CHANGE IN PROFIT TO ASSETS

WEIGHT = 0

Sanofi made major strides.

1	Biogen Idec	274%
2	Sanofi-Aventis	269.6%
3	GSK	57.7%
4	Lilly	38%
5	BMS	23.6%
6	AstraZeneca	6.6%
7	J&J	1.8%
8	Amgen	0.5%
9	Genentech	0.4%
10	Abbott	-0.6%
11	Wyeth	-3.9%
12	Pfizer	-4.5%
13	Forest	-6.6%
14	Novartis	-8.7%
15	Merck	-37.2%
16	Schering-Plough	-42.6%
	AVERAGE	35.5%

PHARMA'S CURRENT MANTRA IS "DO MORE WITH LESS." THIS YEAR, **GSK** DID THE MOST WITH LESS, WITH A 17 PERCENT DECREASE IN SG&A AGAINST A MODEST SALES BUMP. AT THE OTHER END, **MERCK** AND **LILLY** HAD HUGE SG&A SPEND INCREASES AGAINST SALES GROWTH.



**REVENUE PER EMPLOYEE**

WEIGHT = 6

Genentech always outclasses the competition in this metric.

1	Genentech	\$1,480,000
2	Amgen	\$849,000
3	Biogen Idec	\$737,000
4	Forest	\$671,000
5	Pfizer	\$560,000
6	J&J	\$503,000
7	Lilly	\$466,000
8	BMS	\$460,000
9	GSK	\$446,000
10	Wyeth	\$440,000
11	Merck	\$405,000
12	Sanofi-Aventis	\$400,000
13	Novartis	\$399,000
13	AstraZeneca	\$399,000
15	Abbott	\$380,000
16	Schering-Plough	\$230,000
	AVERAGE	\$552,000

**CHANGE IN REVENUE PER EMPLOYEE**

WEIGHT = 0

Schering continues to place last.

1	Genentech	68%
2	Biogen Idec	47.4%
3	Lilly	23.3%
4	GSK	22.9%
5	Amgen	19.1%
6	Sanofi-Aventis	15.3%
7	J&J	15.1%
8	Pfizer	13.6%
9	BMS	10.6%
10	Novartis	9.3%
11	Wyeth	8.1%
12	Merck	7.4%
13	Forest	4.7%
14	Abbott	1.3%
15	AstraZeneca	-0.5%
16	Schering-Plough	-27.2%
	AVERAGE	14.9%

sets (ROA). This year, Biogen Idec scored the highest sales to assets metric at \$1.34. That is, for every \$1 invested in assets, the biotech generated \$1.34 in sales. Biogen Idec was the sole company to top the \$1 mark; even more remarkable, this metric increased for Biogen Idec by over 500 percent, making number two, GSK's 62 percent, pale in comparison. Lilly and Schering-Plough saw the most decline in asset productivity, with drops of 28 percent and 34 percent, respectively.

**Return on Assets** As noted, there are two basic ways to make money: margin management and asset management. The two together are manifested in the uber-metric: Profit to Assets (P/A), which is calculated by multiplying Profit to Sales (P/S) by Sales to Assets (S/A). This year, three companies showed extraordinary increases in this key metric: GSK (up 58 percent), Biogen Idec (up 274 percent), and Sanofi (up 270 percent).

**Revenue/Employee** Some metrics are easy to manipulate. Not Revenue per Employee (R/E). It's just a simple ranking of which companies are best at getting the most out of their employees. Genentech leads the field with a ratio of \$1.48 million in sales per employee, more than six times Schering-Plough's \$230,000; Genentech posted the biggest increase, up 68 percent, while Schering-Plough posted the biggest decrease, down 27 percent. Fourteen of 16 companies improved on this metric, which may be less a sign of improved operations and more of the effect of the layoffs that have swept the industry, enabling these firms to do more with fewer employees.

**Earnings/Share and Price/Earnings** E/S and P/E ratios are standard metrics, but they have less weight than others because they are so easy to manipulate. The average P/E for this year's Sweet 16 is \$16.40, compared to Standard & Poor's average of \$15-\$16. Those below-average firms are vulnerable to being bought out by companies with higher values in P/E, easing the way for a stock purchase of those firms with undervalued stock. Throw in the undervalued dollar, and

OUR 16 COMPANIES LOST, ON AVERAGE, 11 PERCENT OF THEIR SHAREHOLDER VALUE. ONLY **J&J, SANOFI-AVENTIS, SCHERING- PLOUGH, AND BIOGEN IDEC** CREATED WEALTH FOR SHAREHOLDERS. **MERCK**'S VALUE FELL BY ABOUT 15 PERCENT, **PFIZER**'S BY ABOUT 23 PERCENT, AND THE TWO TOP BIOTECHS, **GENENTECH** AND **AMGEN**, DID EVEN WORSE.

**EARNINGS PER SHARE**

WEIGHT = 3

Because this ratio is easily fudged, it is not weighted highly in the final score.

1	Novartis	\$5.24
2	J&J	\$4.01
3	AstraZeneca	\$3.74
4	GSK	\$3.56
5	Wyeth	\$3.35
6	Lilly	\$3.21
7	Forest	\$3.06
8	Amgen	\$2.90
9	Sanofi-Aventis	\$2.88
10	Genentech	\$2.67
11	Abbott	\$2.47
12	Merck	\$2.22
13	Biogen Idec	\$2.16
14	Pfizer	\$1.10
15	BMS	\$1.08
16	Schering-Plough	NA
	AVERAGE	\$2.91

**PRICE TO EARNINGS**

WEIGHT = 3

Biogen Idec was number one for the third year.

1	Biogen Idec	\$29.07
2	Genentech	\$25.93
3	Abbott	\$22.26
4	BMS	\$20.40
5	Pfizer	\$18.29
6	Merck	\$17.91
7	J&J	\$16.67
8	Lilly	\$15.03
9	Amgen	\$14.57
10	Sanofi-Aventis	\$13.40
11	Wyeth	\$13.26
12	GSK	\$12.25
13	Schering-Plough	\$11.29
14	Forest	\$11.24
15	AstraZeneca	\$11.10
16	Novartis	\$9.77
	AVERAGE	\$16.4

**SELLING, GEN. & ADMIN.**

WEIGHT= 0

A new metric, SG&A, tracks operating spend, including marketing.

**CHANGE IN SG&A**

WEIGHT= 0

While every pharma is cutting costs, GSK and Merck excelled at "less is more."

1	J&J	\$20.4 B
2	Pfizer	\$15.6 B
3	Novartis	\$13.2 B
4	GSK	\$11.8 B
5	Sanofi-Aventis	\$10.6 B
6	AstraZeneca	\$9.4 B
7	Merck	\$7.5 B
8	Abbott	\$7.4 B
9	Wyeth	\$6.7 B
10	BMS	\$6.3 B
11	Lilly	\$6.1 B
12	Schering-Plough	\$5.5 B
13	Amgen	\$3.4 B
14	Genentech	\$3.3 B
15	Forest	\$1.1 B
16	Biogen Idec	\$.78 B
AVERAGE		\$8.07 B

1	GSK	-17.5%
2	Merck	-8.5%
3	Pfizer	0%
3	Novartis	0%
3	Amgen	0%
6	BMS	1.6%
7	Wyeth	3.1%
8	Genentech	6.5%
9	AstraZeneca	6.8%
10	Sanofi-Aventis	8.2%
11	Forest	10.0%
12	Schering-Plough	12.2%
13	Biogen Idec	13.3%
14	J&J	17.2%
15	Abbott	17.5%
16	Lilly	24.5%
AVERAGE		5.9%

the shopping spree of Japanese and European buyers may get more active. Biogen Idec's highest ratio, at \$29.07, may help explain the scarcity of buyers when Biogen Idec was on the block recently.

**Selling, General & Administrative** A new addition to the audit this year, Selling, General & Administrative (SG&A), aka Overhead, tracks what a firm spends to keep its business running day to day. Marketing spend is included in SG&A.

SG&A is a metric that doesn't stand well on its own. When sales rise, costs often rise with them, so a high SG&A is good or bad only as it relates to other metrics. As a result, we do not count it in the final score. But we include it in the audit because all drugmakers now recognize that with top-line growth harder to come by, profit can be enhanced by working backward from the bottom line of the profit and loss statement, emphasizing the goal of margin management: improve gross margin, control operating expenses, and maximize profit margin. In a recent report based on a survey of chief financial officers, Ernst & Young announced that cost reduction has become essential; the mantra is "do more with less." This year, GSK did the most with less relative to its peers, with a 17 percent decrease in SG&A compared with a modest increase in sales. At the other end, Merck and Lilly, in particular, had SG&A spend increases far greater than their respective sales increases. **PE**

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**...And the Company of the Year is BIOGEN IDEC**

**B**ioGen Idec, the Boston-based biotech with the commanding franchise in MS, won by a margin of almost 100 points. It bested two consistent contenders: number two, Genentech, and number three, J&J. Rounding out the Fab Four is Eli Lilly. So we say goodbye to Forest and—big surprise—Amgen, a two-time winner that suffered a dismal 2007.

Now we gain a new appreciation for Biogen Idec's performance. It was put in play by legendary corporate raider, Carl Icahn, in mid-2007. The price banded about was in the \$23 to \$30 billion range, about a 30 percent premium to its \$18.5 billion Enterprise Value. In terms of multiples, that is about 8 to 1—not far from the price AstraZeneca paid for Medimmune: \$15 billion for a firm with sales revenue of only \$1.5 billion. Biogen Idec, with \$3 billion in sales, may not be such a bad buy after all.

The biotech has plenty to be proud of: the ability to raise prices on its flagship MS drug, Avonex; a pipeline that some analysts call the best in biotech; its strong relationships with patients; and, arguably, the gold standard for Web sites (its MS and Avonex). It increased shareholder value by 25 percent in a year when most pharmas saw it fall dramatically and delivered a strong performance in other key metrics like Gross Margin, Asset Management, and Employee Productivity.

But last month's report of two new Tysabri deaths took a big bite out of its stock price, and Icahn swooped in to increase his stake. The battle over Biogen Idec's future buyout continues. Stay tuned.

**Overall Rankings**

Company	Total Weighted Points
1 Biogen Idec	694
2 Genentech	596
3 J&J	515
4 Lilly	484
5 GSK	431
6 Forest	429
7 Amgen	419
8 AstraZeneca	405
9 Abbott	388
10 Merck	365
11 Sanofi-Aventis	353
12 Wyeth	336
13 Schering-Plough	308
14 BMS	294
15 Pfizer	281
16 Novartis	270

