

# Merck's 2Q net falls on charges, but sales rise

July 27 2012, by LINDA A. JOHNSON

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This Tuesday, July 17, 2012, photo shows the exterior of the Merck offices in Palo Alto, Calif. Merck & Co. reported Friday July 27, 2012 that its second-quarter net income fell 11.4 percent as slightly higher sales were offset by acquisition and restructuring costs, but the drugmaker beat Wall Street expectations. (AP Photo/Paul Sakuma)

Merck & Co.'s second-quarter net income fell 11.4 percent as slightly higher sales were offset by acquisition and restructuring costs. However, the drugmaker beat Wall Street expectations, and Merck shares jumped in early trading.

The maker of diabetes pill Januvia and asthma and allergy medicine Singulair said Friday that its net income was \$1.79 billion, or 58 cents per share, down from \$2.02 billion, or 65 cents per share, a year earlier. The year-earlier quarter was boosted by a one-time gain of about \$700 million from a favorable settlement of a tax audit.

Excluding one-time items, net income was \$3.23 billion, or \$1.05 per share, up from \$2.95 billion, or 95 cents per share, in 2011's second quarter. That beat analysts' expectations of earnings per share of \$1.01. Charges included \$1.42 billion for acquisition-related costs including writedowns for the decreased value of acquired assets, and \$289 million in costs for ongoing restructuring.

Revenue rose 1.3 percent to \$12.31 billion, exceeding expectations of \$12.15 billion. Merck noted that unfavorable currency exchange rates, mainly due to the weak euro, reduced total revenue by 4 percent.

Pharmaceutical sales rose 2 percent, to \$10.56 billion.

"This was our sixth straight quarter of top-line growth and bottom-line growth," CEO Kenneth Frazier told analysts during a conference call.

Sales were led by Singulair, up 6 percent to \$1.43 billion in its last quarter before generic competition arrives on Aug. 3 and starts to cut sales. Sales of Januvia and combo pill Janumet both jumped about 30 percent, to \$1.06 billion and \$411 million, respectively.

Merck said it expects multiple generic versions of Singulair to hit drugstores next Friday and anticipates 90 percent of sales will be lost to generic pills within two months.

Merck noted it still expects revenue for the year to come in at about the same level as in 2011, when it reported \$48.04 billion in sales. That's despite that huge hit to Singulair, the impact of unfavorable exchange rates and ongoing austerity measures in Europe, where government health programs continue to push for slight price decreases each year.

Sales of veterinary medicines climbed 8 percent to \$865 million, and sales of consumer health products such as the Coppertone sun care line

edged up 2 percent to \$552 million.

Merck reiterated its 2012 forecast for profit of \$2.04 to \$2.30, or \$3.75 to \$3.85 per share excluding charges.

Shares of Merck rose \$1.25, or 2.9 percent, to \$44.58.

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