

Merck 2Q profit tumbles on charges, lower revenue (Update)

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In this Thursday, Feb. 28, 2013 photo, Merck scientist Meizhen Feng conducts research to discover new HIV drugs in West Point, Pa. Merck reports quarterly earnings on Tuesday, July 30, 3013. (AP Photo/Matt Rourke)

Drugmaker Merck & Co.'s second-quarter profit fell by half as generic competition slashed revenue from several older medicines and sales of its top drug barely budged.

Acquisition costs and other charges also hurt the bottom line, the world's

third-largest drugmaker said Tuesday.

Merck also noted that unfavorable exchange rates reduced revenue by 3 percent.

It maintained its profit outlook for the year, but reduced its forecast for revenue, citing exchange rates and other factors. It now says it expects sales to be 5 percent to 6 percent below their level in 2012, when sales dipped nearly 2 percent, to \$47.27 billion.

The lower revenue outlook is unusual for Merck. When it's been weathering patent expirations in the past, as with osteoporosis pill Fosamax and cholesterol drug Zocor, it has always aimed to keep revenue fairly steady and generally has done so.

But this year, it has been slammed by plunging sales for not just its former top seller, asthma and allergy pill Singulair, but migraine drug Maxalt, baldness treatment Propecia and allergy pill Clarinex.

The maker of blockbuster diabetes pill Januvia and Gardasil, a vaccine against sexually transmitted cancers, said its second-quarter net income was \$906 million, or 30 cents per share, down from \$1.79 billion, or 58 cents per share, a year earlier.

Excluding one-time items totaling \$1.62 billion, or 54 cents per share, Merck said adjusted net income was \$2.53 billion, or 84 cents per share. Analysts surveyed by FactSet expected 82 cents.

Merck, based in Whitehouse Station, New Jersey, said revenue fell 11 percent to \$11.01 billion. Analysts expected slightly higher sales of \$11.24 billion.

Merck's stock rose 29 cents to \$48.63 in morning trading.

"It's another round of disappointing news from Merck. Januvia sales have stalled, missing consensus estimates by a mile. Gardasil sales are up but also missed estimates," Erik Gordon, an analyst and professor at University of Michigan's Ross School of Business, wrote in an email.

Gordon noted that Merck has run into trouble with patient tests of some experimental drugs not going well.

"There is not much to smile about. The new R&D head's first move was to cut jobs. That won't be enough to get Merck on track," he added.

Revenue from Merck's prescription medicines and vaccines fell 12 percent to \$9.31 billion.

Sales of top seller Januvia edged up just 1 percent to \$1.07 billion, although Janumet, a pill that combines Januvia with widely used generic diabetes drug metformin, rose 16 percent to \$474 million. Gardasil sales rose 19 percent to \$383 million.

But sales of Singulair—the world's 11th-best-selling drug until it got generic competition last August—plunged 80 percent to \$281 million. It brought Merck \$5.5 billion back in 2011.

Sales of consumer health products such as allergy pill Claritin and the Coppertone sun care line dropped 11 percent to \$490 million. Merck blamed that mostly on the termination of some distribution agreements in China for those products.

Sales of veterinary medicines and vaccines edged down 2 percent to \$851 million.

"This quarter, our business momentum accelerated while we continued to manage our costs," CEO Kenneth C. Frazier told analysts during a

conference call.

The company backed its previous 2013 profit forecast for earnings per share of \$1.84 to \$2.05, excluding one-time items. Including those items, Merck said it expects \$3.45 to \$3.55.

"The longer-term financial outlook for (Merck) looks reasonable but not great," Bernstein analyst Dr. Tim Anderson wrote in a note to investors. "Despite some important future patent expirations, (Merck's) revenue and earnings base should hold relatively steady across the years on balance," with "some reasonable degree of revenue and EPS growth."

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