

Merck to cut 8,500 more jobs (Update)

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In this Thursday, Feb. 28, 2013 file photo, Merck scientist Meizhen Feng conducts research to discover new HIV drugs in West Point, Pa. Merck & Co. said Tuesday, Oct. 2, 2013, that the company plans to cut another 8,500 jobs as the drugmaker continues its struggle with competition from cheaper generic medications that have squeezed the pharmaceutical industry for several quarters now. (AP Photo/Matt Rourke, File)

Merck & Co. plans to cut another 8,500 jobs as the drugmaker continues its struggle with competition from cheaper generic medications that have squeezed the pharmaceutical industry for several quarters now.

The New Jersey-based company said the reductions it announced Tuesday are in addition to a total of 7,500 cuts it had previously announced but hasn't carried out. That means it is slashing about 20 percent of its workforce, currently at about 81,000 people.

Merck, the world's third-largest drugmaker, said the restructuring will cost a total of between \$2.5 billion and \$3 billion before taxes, mainly due to employee severance costs. But it expects the moves to help generate annual savings of about \$2.5 billion by the end of 2015.

It expects to realize \$1 billion by the end of 2014. Most of savings are expected to come from marketing and administrative expenses and research and development.

Company shares rose 2.2 percent, or \$1.05, to \$48.66 at midday Tuesday after the announcement came out, while the Standard & Poor's 500 index climbed less than 1 percent. Merck's stock is up about 19 percent so far this year.

"The stock market almost always reacts well to big expense cuts," said Erik Gordon, an analyst and professor at University of Michigan's Ross School of Business. "It's the simplest, clearest thing for analysts to understand."

In addition, Merck said Tuesday it will now move its headquarters from Whitehouse Station, New Jersey, to Kenilworth, New Jersey. The company had previously planned to move to Summit, New Jersey., but it determined it could save more money by closing both its Summit and Whitehouse Station locations. Its operations in Summit, which include its Animal Health and Consumer Care divisions, will be moved to other locations in New Jersey or Pennsylvania.

The headquarters move is expected to begin next year and be finished by

2015. Merck has been based in Whitehouse Station since 1992.

Company spokeswoman Kelley Dougherty said Merck already has office space, research and development and manufacturing locations in Kenilworth, which is around 20 miles from New York City.

Since early in the last decade, Merck has been steadily slashing jobs and announcing a new restructuring program every two or three years. After buying Schering-Plough Corp. in November 2009, the combined company had a total of about 100,000 jobs.

Like many other drugmakers, the company is being squeezed by the weak global economy, private and government health programs pushing for lower medicine prices, and generic competition that slashes revenue from former blockbuster drugs.

Last year, Merck's top seller, the asthma and allergy treatment Singulair, got U.S. generic competition. This year, the company has been hurt by plunging sales for the migraine drug Maxalt, the baldness treatment Propecia and the allergy pill Clarinex.

In July, the maker of the blockbuster diabetes pill Januvia said its second-quarter profit fell by half in part because generic competition slashed revenue from several older medicines. Acquisition costs and other charges also hurt its bottom line. Merck earned \$906 million, or 30 cents per share, which was down from \$1.79 billion, or 58 cents per share, a year earlier.

Competition from generic drugs only tells half the story about the challenges facing big pharmaceutical companies like Merck, said Gordon, the University of Michigan professor. He noted that that these companies also are not developing enough new drugs to replace the revenue they lose to the cheaper competitors.

Merck said Tuesday that it still backed its adjusted 2013 profit prediction of between \$3.45 and \$3.55 per share. Analysts surveyed by FactSet expect \$3.47 per share.

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