Merck 1Q profit up 7 pct. despite sales decline

April 29 2014

Major cost cuts enabled drugmaker Merck & Co. to offset lower first-quarter sales as generic competition continues to hurt sales of former blockbuster medicines. Merck's profit rose 7 percent, trouncing Wall Street expectations.

Merck said it plans to rely on its pipeline of experimental drugs for future sales. That would make it an exception to the trend among many other drugmakers, which are pursuing big acquisitions to keep sales growing.

The maker of the diabetes pill Januvia said Tuesday that net income was $1.71 billion, or 57 cents per share, up from $1.59 billion, or 52 cents per share, a year earlier.

Excluding $896 million in restructuring and acquisition charges, net income was $2.6 billion, or 88 cents per share—9 cents better than analysts expected.

In mid-afternoon trading, Merck's shares rose $1.71, or 3 percent, to $58.40.

Revenue totaled $10.26 billion, down 4 percent and just below the $10.44 billion analysts expected.

Pharmaceutical sales dropped 5 percent, to $8.45 billion, as cheaper generic copycat pills hammered several off-patent drugs that once brought in billions each year: asthma and allergy pill Singulair, allergy spray Nasonex and blood pressure drugs Cozaar and Hyzaar.

Merck's top sellers, Type 2 diabetes pills Januvia and Janumet, brought in a combined $1.33 billion, up 3 percent. Sales jumped 10 percent to $604 million for immune disorder drug Remicade, and also rose for HIV drug Isentress and several other products.

Lower sales of nonprescription Claritin allergy pills dragged down consumer health sales 4 percent to $454 million. Sales of veterinary medicines declined 3 percent to $813 million.

Analysts were surprised by the level of cost cuts: 8 percent for administration and marketing expenses and 17 percent for research spending as new research head Roger Perlmutter continues to cut Merck's least-promising programs. Merck, based in Whitehouse Station, N.J., reduced its global workforce by 2,000 in the quarter, to 74,000.

"It is a necessary but not sufficient part of their execution strategy," Edward Jones analyst Judson Clark said of the cuts. He said Merck also must get key drugs in its pipeline approved to do well.

CEO Kenneth Frazier told analysts during a conference call that Merck has promising experimental drugs in testing for hepatitis C, HIV and various cancers.

"We're excited by our pipeline and what's to come," he said.

Meanwhile, Merck's two tablets for gradually reducing seasonal allergies to grass and ragweed were recently approved. Because patients must start the daily immunotherapy tablets a few months before allergy season begins, Merck said it's now promoting Ragwitek to doctors but it's too late to promote Grasstek this year.

With the recent spurt of proposed acquisitions and asset swaps in the pharmaceutical industry, analysts asked if Merck would do such a deal. Frazier said small deals might be possible, but he's focused on growth through new drugs for unmet medical needs.

"Our preferred (growth) route is through innovation rather than consolidation," he said.

Merck reaffirmed its 2014 forecast for profit of $2.15 to $2.47 per share, prompting analysts to ask why it didn't raise its forecast. Merck said that's because Venezuela may devalue its currency, which would decrease the value of sales there.

"Anytime you see a nine-cent beat, you'd like to see guidance walk up," so Merck may expect a slightly softer second quarter, Clark said.