

Merck cost cuts offset lower sales and strong dollar in 3Q

October 27 2015, by Linda A. Johnson



In this Thursday, Dec. 18, 2014 file photo, scientist William Napoli draws a substance for an experiment in a laboratory at the Merck company facilities in Kenilworth, N.J. Merck reports quarterly financial results on Tuesday, Oct. 27, 2015. (AP Photo/Mel Evans, File)

Merck's third-quarter profit more than doubled as heavy cost-cutting more than offset lower sales and the negative effects of a strong dollar.

The maker of diabetes pill Januvia beat Wall Street's profit expectations and edged up its 2015 profit forecast, despite lower sales for vaccines and drugs for high cholesterol, HIV and immune disorders.

The company is rebuilding its decimated hepatitis C business and battling for dominance with new cancer treatments—both extremely lucrative areas where competition is getting fiercer. As it transitions, Merck has been slashing jobs and other costs, though it has mostly spared research from the cuts. Merck says it's exceeded its goal of reducing annual spending by \$2.5 billion, from its 2012 level.

Third-quarter net income totaled \$1.83 billion, or 64 cents per share, up from \$895 million, or 31 cents per share.

Excluding acquisition, divestiture, restructuring and other one-time items totaling \$894 million after taxes, adjusted net income was \$2.72 billion, or 96 cents per share. Analysts expected 91 cents per share.

Revenue was \$10.07 billion, just shy of the \$10.09 billion forecast by analysts. The strong dollar, which lowers the value of overseas sales made in local currencies, reduced revenue 7 percent, the company said.

Shares of the Kenilworth, New Jersey, company rose \$1.10, or 2.1 percent, to \$54.01.

"We like the company's pipeline exposure to four high-value categories," cancer, hepatitis C, cholesterol and Alzheimer's disease, SanfordBernstein analyst Dr. Timothy Anderson wrote.

He said the company has made progress on experimental drugs while raising profit forecasts twice this year.

Sales of prescription drugs dipped 2 percent in the quarter, to \$8.93

billion.

Merck's most important new drug, Keytruda, part of the hot new class of drugs that fight cancer by harnessing the immune system, posted sales of \$160 million.

Merck & Co. is behind rival Bristol-Myers Squibb Co. in the race for supremacy in sales of these targeted cancer drugs, but Keytruda won Food and Drug Administration approval during the quarter for treating advanced non-small cell lung cancer in patients whose tumors produce a protein called PD-L1. Keytruda also is approved for treating melanoma and it's awaiting approval for other uses. Merck is launching the drug in about 40 more countries.

Januvia and combination pill Janumet, among the most popular pills for Type 2 diabetes, posted a 10 percent increase in combined sales at \$1.58 billion. Merck noted its new diabetes drug, omarigliptin, was approved in Japan recently, and the company will apply by year's end for FDA approval.

Merck could get U.S. approval in late January for a daily combination pill for hepatitis C, a drug called elbasvir/grazoprevir. It may be a contender in the multibillion-dollar market for very expensive pills that cure the liver-destroying virus within a few months for most patients, unlike the prior generation of year-long, side effect-laden treatments that barely cured half of patients.

Merck, through its Schering-Plough unit, was a pioneer in hepatitis C treatments. But rival new drugs, particularly Gilead Sciences Inc.'s blockbusters Harvoni and Sovaldi, have wiped out sales of Merck's older, less-effective ones.

Sales of veterinary medicines declined 7 percent to \$825 million. Merck

sold its consumer health business to Bayer AG last year; it brought in \$401 million in 2014's third quarter.

Merck raised its full-year profit forecast to a range of \$3.55 to \$3.60 per share, up from \$3.45 to \$3.55 in July, excluding one-time items. The company expects 2015 revenue of between \$39.2 billion and \$39.8 billion.

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Citation: Merck cost cuts offset lower sales and strong dollar in 3Q (2015, October 27) retrieved 27 April 2024 from <https://medicalxpress.com/news/2015-10-merck-tops-3q-profit.html>

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