Merck posts strong first-quarter profit, but revenue light

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In this Dec. 18, 2014, file photo, a person walks through a Merck company building, in Kenilworth, N.J. Merck & Co. reports earnings Tuesday, May 1, 2018. (AP Photo/Mel Evans, File)

Drugmaker Merck's first-quarter revenue rose 6 percent, driven by a huge jump in sales of cancer blockbuster Keytruda, but a $1.4 billion charge for starting a research partnership with Japanese drugmaker Eisai dragged down profits by more than half.

Despite that deal, analysts on a call to discuss Merck's results Tuesday peppered company executives about plans for major acquisitions or other strategies to diversify, given that Keytruda now accounts for about 15 percent of total revenue.

Merck already has approvals for treating seven tumor types with Keytruda, which has grabbed the lead in the white-hot field of immuno-oncology, or cancer drugs that work by removing a sort-of invisibility cloak so immune system cells can better spot and attack cancerous cells. U.S. regulatory approvals are pending for additional uses, and recent study data show that Keytruda plus chemotherapy cut risk of death in half compared with just chemotherapy in advanced lung cancer. Meanwhile, the company is running about 750 studies of Keytruda alone or in combination with other drugs.

Merck executives said they have plenty of money to do a deal of any size, with about $20 billion of cash on hand and room to borrow more, but they're not necessarily looking for a mega-deal. They also stressed that Merck's animal health business, which analysts have been pressing it to divest, provides both diversification and synergies with research in the human health division.

"I am very optimistic about our near and long-term growth trajectory," Chief Executive Ken Frazier told the analysts.

The maker of vaccines and diabetes drug Januvia reported net income of $736 million, or 27 cents per share, down 53 percent from $1.55 billion, or 56 cents per share, a year earlier. Earnings, adjusted for one-time costs, came to $1.05 per share, 6 cents better than Wall Street analysts had projected.

Total revenue of $10.04 billion just missed the $10.12 billion analysts expected.

"This was a solid quarter for Merck," Edward Jones analyst Ashtyn Evans wrote to investors. "We think growth from Keytruda will help counter declining sales from competitive pressures in areas such as diabetes and hepatitis C."

The diabetes category has become so crowded that drugmakers are forced to give huge discounts to insurers, while Merck's Zepatier was a late comer to the hepatitis C category. It never got much traction against early entries such as Gilead's Harvoni and saw sales drop 65 percent in the quarter, to just $131 million.

Prescription drug sales rose 4 percent to $8.92 billion, and veterinary medicine sales jumped 13 percent to $1.07 billion in the quarter.

Total U.S. sales dipped 1 percent to $4.13 billion, while sales overseas rose 13 percent, buoyed by favorable currency exchange rates, to $5.9 billion.

The Kenilworth, New Jersey, company raised its 2018 financial forecast a bit. It now expects adjusted full-year earnings between $4.16 and $4.28 per share, with revenue between $41.8 billion and $43 billion.

In midday trading, shares fell $1.63, or 2.8 percent, to $57.24.