

Propecia's Merck shows 5% Profit

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Industry News

Merck & Co. Inc. said Friday its second-quarter profits rose 5 percent, a marked slowdown from earlier quarters. Merck & Co. Inc. said Friday its second-quarter profits rose 5 percent, a marked slowdown from earlier quarters, on competition from generic drugs and disappointing sales of its Vioxx arthritis treatment and cholesterol fighter Zocor... Merck & Co. Inc. said Friday its second-quarter profits rose 5 percent, a marked slowdown from earlier quarters, on competition from generic drugs and disappointing sales of its Vioxx arthritis treatment and cholesterol fighter Zocor.

The world's No. 3 drugmaker, a member of the Dow Jones industrial average, reported net income of \$1.82 billion, or 78 cents a share, compared with \$1.72 billion, or 73 cents a share, a year earlier.

Whitehouse Station, New Jersey-based Merck cut its earnings outlook in June to between 77 cents and 79 cents a share. Analysts on average were expecting an 81-cent profit at the time, according to research firm Thomson Financial/First Call.

Sales of newer drugs like Fosamax for osteoporosis and Singulair for asthma continued to soar, but heartburn drug Pepcid and hypertension treatment Vasotec saw revenues cut almost in half amid brutal competition from cheaper generics.

More generic competition is just ahead, as patents are slated to expire in October on ulcer drug Prilosec, by December on older cholesterol treatment Mevacor and by June, 2002 on hypertension treatment Prinivil.

And analysts are concerned since Merck is not expected to launch any major products in the next year to offset declining sales of the drugs losing ground to copycat medicines.

"As it is, they are relying on Vioxx, Fosamax and Zocor to pull them through. It remains to be seen whether they can maintain competitive growth through that generic competition while not introducing major new products," said analyst Mario Corso of Leerink Swann & Co.

The company had warned earlier that its full-year as well as second-quarter earnings would miss forecasts as a result of lower than expected Vioxx sales and the strong dollar, which lowers the value of sales in countries with weaker currencies.

Its earnings per share had enjoyed mid-teens percentage growth during the past year, taking flight on sales of Vioxx, which the company launched in mid 1999.

MERCK-MEDCO DRIVES SALES GROWTH

Merck said second-quarter net sales rose 25 percent to \$11.9 billion, largely due to a 37 percent rise in prescriptions handled by the company's pharmaceutical benefits management arm, Merck-Medco.

But human health sales, including prescription drugs, edged up only 6 percent, as Pepcid sales tumbled 49 percent to \$110 million and Vasotec dropped 44 percent to \$295 million.

"Certainly, the pharmaceutical sales are less than I expected, and both Zocor and Vioxx sales were below my expectations," said Raymond James analyst Mike Krensavage.

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Merck reported Vioxx sales of \$725 million, a 53 percent jump from the second quarter of 2000.

But although the drug's revenues grew, they have failed to live up to Wall Street forecasts.

"My outlook was \$745 million in sales for Vioxx, and Merck came in a bit light," Krensavage said. "The key drug is Zocor, that was \$130 million less than I had expected."

Merck said Zocor, which competes with No. 1 drugmaker Pfizer Inc.'s potent Lipitor, notched second-quarter sales of \$1.36 billion, only 5 percent higher than a year earlier. That's a dramatic slowdown in growth for its flagship medicine, which boasted 17 percent growth in full-year 2000.

But Merck executives said on a conference call that the growth slowdown stemmed largely from wholesalers that stocked up heavily on Zocor in the first quarter. The company sees full-year sales of the drug perhaps rising as much as 17 percent to \$6.2 billion for the full year.

NEWER CASH COWS

But several profitable newer drugs remained powerful cash cows. Quarterly sales of Singulair, for example, leaped 79 percent to \$375 million, while Fosamax's revenues jumped 51 percent to \$490 million. Combined sales of newer hypertension drugs Cozaar and Hyzaar, rose 23 percent to \$510 million.

The drug giant said its Merck-Medco unit, which helps manage filling of prescriptions for insurers and managed-care companies, processed 134 million prescriptions in the quarter, a 37 percent increase for the low-margin unit.

Merck said it recently reached an agreement to receive a fixed rate of 27 percent from AstraZeneca on profits from U.S. sales of Nexium, a newer ulcer drug launched in March and meant to succeed AstraZeneca's Prilosec. Under previous arrangements, Merck keeps over 30 percent of profits from U.S. sales from Prilosec, the world's top-selling drug.

Merck reaffirmed comfort with 2001 earnings forecasts of \$3.12 to \$3.18 a share, or growth of up to 9.5 percent.

Analysts polled by First Call are expecting the company to post earnings of \$3.14 a share for 2001

Merck shares fell 58 cents to \$66.72 in midday New York Stock Exchange trade. After peaking at \$96.63 in November, the stock is off about 27 percent, underperforming its peers on the American Stock Exchange Pharmaceutical Index, which are off more than 10 percent for that period.

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