

# Merck breezes past 3Q profit expectations, raises forecast

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In this Thursday, Dec. 18, 2014, file photo, a person walks through a Merck company building, in Kenilworth, N.J. Merck reports financial results Tuesday, Oct. 25, 2016. (AP Photo/Mel Evans, File)

Higher sales of vaccines and prescription medicines, coupled with restrained spending, helped Merck & Co. post a 20 percent jump in third-quarter profit, trouncing Wall Street expectations.

The maker of Januvia diabetes pills raised and narrowed its 2016 financial forecasts, but noted some headwinds, including the start of U.S. generic competition to three drugs by year's end.

Its shares edged higher in midday trading Tuesday.

The second-biggest U.S. drugmaker is in transition, with revenue from older products such as immune disorder treatment Remicade and the Dulera asthma inhaler leveling off or falling amid increased competition. But sales are building for drugs launched since 2014, particularly immuno-oncology drug Keytruda and hepatitis C-curing Zepatier.

Meanwhile, Zinplava for preventing recurrence of life-threatening C. difficile infections was approved Friday in the U.S., and Merck plans to apply soon for approval of experimental diabetes drug ertugliflozin and additional uses for Keytruda, its newest blockbuster, with more than \$1 billion in sales over the past four quarters.

In addition, chief executive Ken Frazier told analysts during a conference call that deals to boost Merck's pipeline of experimental drugs, with a focus on small -to-midsized assets that fit well within its business, are a priority. He noted Merck is calling attention to the innovation of its medicines amid the U.S. political furor over soaring drug prices.

"We don't think these environmental pricing pressures will ease," Frazier said.

Merck reported net income of \$2.18 billion, or 78 cents per share. Adjusted for one-time gains and costs, earnings came to \$1.07 per share, eclipsing the 98 cents analysts expected.

The Kenilworth, New Jersey-based drugmaker reported revenue of

\$10.54 billion, up 5 percent and above Street forecasts for \$10.24 billion.

Sales of prescription drugs rose 6 percent to \$9.44 billion, led by higher sales for Keytruda, cholesterol pill Zetia, drugs used in hospitals and Gardasil and other vaccines.

Top seller Januvia and combination drug Jamumet, for Type 2 diabetes, saw sales dip 1 percent to a combined \$1.56 billion. Sales of cholesterol medicines Zetia and Vytorin, which should face generic competition by year's end, edged up 1 percent to \$944 million. Antibiotic Cubicin also is getting generic competition this quarter.

Gardasil, a vaccine against cancer-causing human papilloma virus, saw sales jump 38 percent to \$860 million, boosted by a higher U.S. price for a new version that protects against more strains of HPV, higher U.S. demand and purchases by government health programs. Children's vaccine Proquad also benefited from U.S. health program stockpiling, raising sales 28 percent to \$496 million.

Keytruda, one of the hot new cancer drugs that work by boosting the immune system to fight tumors, posted sales of \$364 million, up 124 percent. Late Monday, the immuno-oncology drug won U.S. approval—two months ahead of schedule—for using Keytruda in bigger patient groups, including those newly diagnosed with lung cancer. Cancer drugs typically are approved initially for use after multiple other drugs have failed patients, then gradually allowed to be used earlier in treatment.

Keytruda is already approved as a second-line treatment for lung cancer and for melanoma and head and neck cancer. It's being tested in about 300 patient studies, alone and combined with chemotherapy or other immuno-oncology drugs.

"We are excited by the long-term potential of Keytruda against many different tumor types," pharmaceutical marketing head Adam Schechter told the analysts.

Sanford Bernstein analyst Dr. Timothy Anderson wrote to investors that the early approval "helps cement the product's lead versus competitors in the large lung cancer market," which should further raise Keytruda sales.

Sales of veterinary medicines rose 5 percent to \$865 million, driven partly by the Bravecto line of flea and tick products.

Merck now expects full-year earnings of \$2.02 to \$2.09, up from its July forecast of \$1.98 to \$2.08, and revenue of \$39.7 billion to \$40.2 billion, up from \$39.1 billion to \$40.1 billion.

In midday trading, Merck shares rose 74 cents, or 1.2 percent, to \$61.49 as the broader markets declined. Merck shares have risen more than 16 percent over the past year.

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