



# News Release

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## Merck Announces First Quarter 2011 Financial Results

- Double-Digit EPS Growth in First Quarter 2011: Non-GAAP EPS of \$0.92; GAAP EPS of \$0.34
- Double-Digit Global Growth for JANUVIA, JANUMET, SINGULAIR, REMICADE, NASONEX and ISENTRESS; Key Product Launches Underway
- Pharmaceutical, Animal Health and Consumer Care Divisions All Contributed Solid Revenue Growth
- Company Updates Full-Year 2011 EPS Targets: Non-GAAP EPS Range of \$3.66 to \$3.76; GAAP EPS Range of \$2.04 to \$2.39

WHITEHOUSE STATION, N.J., April 29, 2011 – Merck (NYSE: MRK), known as MSD outside the United States and Canada, today announced financial results for the first quarter of 2011.

	First Quarter 2011	First Quarter 2010
\$ in millions, except EPS amounts		
Sales	\$ 11,580	\$ 11,422
GAAP EPS	0.34	0.09
Non-GAAP EPS that excludes items listed below <sup>1</sup>	0.92	0.83
GAAP Net Income <sup>2</sup>	1,043	299
Non-GAAP Net Income that excludes items listed below <sup>1,2</sup>	2,861	2,608

Non-GAAP (generally accepted accounting principles) earnings per share (EPS) for the first quarter of \$0.92 excludes purchase accounting adjustments, restructuring costs, merger-

<sup>1</sup> Merck is providing certain 2011 and 2010 non-GAAP information that excludes certain items because of the nature of these items and the impact they have on the analysis of underlying business performance and trends. Management believes that providing this information enhances investors' understanding of the company's performance. This information should be considered in addition to, but not in lieu of, information prepared in accordance with GAAP. For a description of the items, see Table 2a, including the related footnotes, attached to this release.

<sup>2</sup> Net income attributable to Merck & Co., Inc.

related expenses, a \$500 million charge related to the resolution of the arbitration proceeding with Johnson & Johnson, and certain other items.

A reconciliation of GAAP to non-GAAP net income and EPS is provided in the tables that follow.

	First Quarter 2011		First Quarter 2010	
	Net Income <sup>2</sup>	EPS	Net Income <sup>2</sup>	EPS
\$ in millions, except EPS amounts				
GAAP	\$ 1,043	\$ 0.34	\$ 299	\$ 0.09
Difference	1,818	0.58 <sup>3</sup>	2,309	0.74 <sup>3</sup>
Non-GAAP that excludes items listed below	\$ 2,861	\$ 0.92	\$ 2,608	\$ 0.83

	First Quarter 2011	First Quarter 2010
\$ in millions		
Purchase accounting adjustments <sup>4</sup>	\$ 1,580	\$ 2,374
Costs related to restructuring programs	126	351
Merger-related costs	77	87
Arbitration settlement charge	500	--
Other <sup>5</sup>	(134)	--
Net decrease (increase) in income before taxes	2,149	2,812
Estimated income tax (benefit) expense <sup>6</sup>	(331)	(503)
Decrease (increase) in net income	\$ 1,818	\$ 2,309

"Merck's first quarter performance underscores that we are successfully delivering on our intent to grow both the top line and the bottom line," said Kenneth C. Frazier, president and chief executive officer. "Our strong results were largely driven by double-digit growth of key products combined with deliberate cost control measures across all areas of the company as we continue to create a more effective and efficient operating model.

"It is clear that Merck's business momentum is building, and we continue to demonstrate the ongoing value of the merger. We're making progress in our robust late-stage pipeline, and leveraging the benefits of our expanded pharmaceutical and vaccine, animal health and consumer portfolio."

### Select Revenue Highlights

<sup>3</sup> Represents the difference between calculated GAAP EPS and calculated non-GAAP EPS which may be different than the amount calculated by dividing the impact of the excluded items by the weighted average shares.

<sup>4</sup> Amounts for the first quarter of 2011 and 2010 reflect \$302 million and \$27 million, respectively, of in-process research and development impairment charges. The remaining amounts represent expenses for the amortization of intangible assets and amortization of purchase accounting adjustments to inventories recognized as a result of the merger.

<sup>5</sup> Represents a gain on the sale of certain manufacturing facilities and related assets reflected in other (income) expense, net.

<sup>6</sup> Includes an estimated income tax (benefit) expense on the reconciling items. In addition, amount for the first quarter of 2010 includes a \$147 million tax charge related to U.S. healthcare reform legislation.

Worldwide sales were \$11.6 billion for the first quarter of 2011, an increase of 1 percent compared with the first quarter of 2010. The revenue increase largely reflects strong sales of JANUVIA, JANUMET, SINGULAIR, REMICADE, NASONEX and ISENTRESS, partially offset by lower sales of COZAAR<sup>7</sup> and HYZAAR<sup>7</sup>. In the first quarter of 2011, 18 percent of pharmaceutical sales were from emerging markets.

The table below reflects sales of the company's top Pharmaceutical products, as well as total sales of Animal Health and Consumer Care products.

\$ in millions	First Quarter 2011	First Quarter 2010	Change
Total Sales	\$ 11,580	\$ 11,422	1%
Pharmaceutical <sup>8</sup>	9,820	9,665	2%
SINGULAIR	1,328	1,165	14%
REMICADE	753	674	12%
JANUVIA	739	511	45%
ZETIA	582	534	9%
VYTORIN	480	477	1%
COZAAR/HYZAAR	426	782	-46%
NASONEX	373	320	17%
JANUMET	305	201	52%
ISENTRESS	292	232	26%
TEMODAR	248	274	-10%
GARDASIL	214	233	-8%
Animal Health	758	709	7%
Consumer Care <sup>8</sup>	517	489	6%
Other Revenues <sup>9</sup>	486	559	-13%

The combined diabetes franchise for JANUVIA (sitagliptin)/JANUMET (sitagliptin/metformin hydrochloride) continued its strong performance across all geographic regions during the first quarter of 2011, reaching quarterly combined sales of more than \$1 billion for the first time – a 47 percent increase compared to the same period last year.

Worldwide sales of SINGULAIR (montelukast sodium), a once-a-day oral medicine indicated for the chronic treatment of asthma and the relief of symptoms of allergic rhinitis, grew 14 percent from the first quarter of 2010 to \$1.3 billion, driven by gains in the United States, emerging markets and Japan.

<sup>7</sup> COZAAR and HYZAAR are registered trademarks of E.I. duPont de Nemours and Company, Wilmington, Del.

<sup>8</sup> In the first quarter of 2011, Merck changed the reporting for certain over-the-counter products. Sales of these products outside the United States were previously recorded in the Pharmaceutical business, and are now reported in the Consumer Care business. Prior period amounts have been recast on a comparative basis.

<sup>9</sup> Other revenues are primarily comprised of alliance revenue, miscellaneous corporate revenues and third party manufacturing sales. Revenue from AstraZeneca LP recorded by Merck was \$322 million in the first quarter of 2011.

Global sales grew in the quarter for REMICADE (infliximab), a treatment for inflammatory diseases, led by increases in gastrointestinal indications for the treatment of ulcerative colitis and Crohn's disease as well as emerging market gains.

ISENTRESS (raltegravir), an HIV integrase inhibitor for use in combination with other antiretroviral agents for the treatment of HIV-1 infection, continued strong growth in the quarter driven by demand in the United States and Europe.

As expected, global sales of Merck's antihypertensive medicines COZAAR (losartan potassium) and HYZAAR (losartan potassium and hydrochlorothiazide) continue to decline following loss of marketing exclusivity for these products in the United States and in major European markets. Sales of TEMODAR (temozolomide), a treatment for certain types of brain tumors, declined due to generic competition in Europe.

Sales of ZOSTAVAX (zoster vaccine live) declined due to continued intermittent supply issues.

### **Product Performance – Animal Health**

The company drove solid first-quarter performance in the Animal Health business across all regions, with a 7 percent sales increase over the same period last year. The growth was led by increased sales of cattle, swine and aquaculture products. The division's products include pharmaceutical and vaccine products for the prevention, treatment and control of disease in all major farm and companion animal species. In addition, in March of 2011, Merck and sanofi-aventis announced the termination of their agreement to form a new animal health joint venture.

### **Product Performance – Consumer Care**

Merck Consumer Care delivered a first-quarter sales increase of 6 percent compared to the first quarter of 2010, with strong performance across several key brands including CLARITIN and COPPERTONE. Consumer Care includes footcare and sun care consumer products, and a variety of over-the-counter medicines.

### **First Quarter Expense and Other Information**

The costs detailed below on a GAAP basis during the first quarter of 2011 totaled \$9.4 billion and include \$1.8 billion of purchase accounting adjustments, restructuring costs and merger-related costs.

\$ in millions	Included in expenses for the period				
	GAAP	Purchase Accounting Adjustments <sup>4</sup>	Restructuring Costs	Merger-Related Costs	Non-GAAP <sup>1</sup>
<b>First Quarter 2011</b>					
Materials and production	\$ 4,059	\$ 1,278	\$ 72	\$ 19	\$ 2,690
Marketing and administrative	3,164	-	23	58	3,083
Research and development	2,158	302	45	-	1,811
Restructuring costs	(14)	-	(14)	-	-
<b>First Quarter 2010</b>					
Materials and production	\$ 5,216	\$ 2,347	\$ 57	\$ -	\$ 2,812
Marketing and administrative	3,222	-	-	80	3,142
Research and development	2,051	27	6	-	2,018
Restructuring costs	288	-	288	-	-

The gross margin was 64.9 percent for the first quarter of 2011 and 54.3 percent for the first quarter of 2010, reflecting 11.9 and 21.1 percentage point unfavorable impacts, respectively, from the purchase accounting adjustments, restructuring and merger-related costs noted above.

Equity income from affiliates was \$138 million in the first quarter. Equity income from affiliates primarily includes the AstraZeneca LP, Johnson & Johnson Merck Consumer Pharmaceuticals Company and Sanofi Pasteur MSD partnerships.

Other (income) expense, net was \$622 million of expense in the first quarter of 2011 which includes a \$500 million charge related to the resolution of the arbitration proceeding with Johnson & Johnson. Other (income) expense, net for the first quarter of 2010 was \$167 million of expense.

The GAAP effective tax rate was 38.1 percent for the first quarter of 2011. The non-GAAP effective tax rate, which excludes the impact of purchase accounting adjustments, restructuring costs, merger-related expenses, a \$500 million charge related to the resolution of the arbitration proceeding, and certain other items, was 25.5 percent for the quarter.

### Key Developments

- Merck reached an agreement with Johnson & Johnson that settles the arbitration proceeding about the distribution rights for REMICADE (infliximab) and SIMPONI (golimumab).
- Merck now has five investigational medicines under regulatory review in the United States and European Union (EU), including two that were accepted for review in the first quarter of 2011.
  - VICTRELIS (boceprevir), the company's investigational oral hepatitis C protease inhibitor currently under Priority Review status by the U.S. Food and Drug

Administration (FDA) and accelerated assessment status by the EU, was recommended for approval by unanimous vote by the FDA's Antiviral Drugs Advisory Committee on April 27, 2011.

- An investigational extended-release formulation of JANUMET (sitagliptin/metformin HCl) for Type 2 diabetes is under standard review by the FDA.
- The FDA accepted for standard review during the first quarter of 2011 a combination of JANUVIA (sitagliptin) and ZOCOR (simvastatin) for the investigational treatment of diabetes and dyslipidemia.
- Tafluprost, an investigational prostaglandin analogue ophthalmic solution, was accepted for standard review by the FDA in the first quarter of 2011.
- NOMAC-E2 (acetate 2.5 mg /17 $\beta$ -estradiol 1.5 mg), an investigational monophasic combined oral contraceptive tablet for the use by women to prevent pregnancy was recommended for approval by the Committee for Medicinal Products for Human Use of the European Medicines Agency.
- Two medicines received regulatory approval for expanded indications.
  - In the United States, ZOSTAVAX (Zoster Vaccine Live) received an expanded age indication for the prevention of herpes zoster, commonly known as shingles, to include adults 50 to 59 years of age, and
  - In the EU, SIMPONI (golimumab) received approval for use in combination with methotrexate in certain adults with severe, active and progressive rheumatoid arthritis for the reduction in the rate of progression of joint damage as measured by X-ray.
- In the United States, the FDA approved SYLATRON (peginterferon alfa-2b) for the adjuvant treatment of patients with melanoma with microscopic or gross nodal involvement within 84 days of definitive surgical resection including complete lymphadenectomy.
- The company formed a new joint venture with Sun Pharmaceutical Industries Ltd., a leading Indian multinational pharmaceutical company, to develop, manufacture and commercialize new combinations and formulations of innovative, branded generics for the emerging markets.
- Merck agreed to acquire Inspire Pharmaceuticals, Inc., a specialty pharmaceutical company, for approximately \$430 million to expand and position its ophthalmology portfolio for future growth. The transaction is expected to close in the second quarter of 2011.

## Financial Targets

The company updated its 2011 non-GAAP EPS target range to \$3.66 to \$3.76 from the previous target range of \$3.64 to \$3.76. The target range excludes purchase accounting adjustments, restructuring costs, merger-related expenses, the \$500 million charge related to the resolution of the arbitration proceeding with Johnson & Johnson, and certain other items. The 2011 GAAP EPS target range is \$2.04 to \$2.39.

In addition, the company lowered its non-GAAP R&D expense target to a range of \$8.0 billion to \$8.4 billion for the full year of 2011. This target excludes restructuring costs and in-process R&D impairment charges.

Merck continues to expect full year 2011 revenue to grow in the low- to mid-single digit percent range from a base of \$46.0 billion in 2010.

Merck continues to estimate that its consolidated non-GAAP 2011 tax rate will be approximately 20 percent to 22 percent.

A reconciliation of anticipated 2011 EPS as reported in accordance with GAAP to non-GAAP EPS that excludes certain items is provided in the table below.

\$ in millions, except EPS amounts	Full Year 2011
GAAP EPS	\$2.04 to \$2.39
EPS difference <sup>3</sup>	1.62 to 1.37
Non-GAAP EPS that excludes items listed below	\$3.66 to \$3.76

Purchase accounting adjustments <sup>4</sup>	\$5,400 to \$5,100
Costs related to restructuring programs	900 to 700
Merger-related costs	200 to 100
Arbitration settlement charge	500
Other <sup>5</sup>	(134)
Net decrease (increase) in income before taxes	6,866 to 6,266
Estimated income tax (benefit) expense <sup>10</sup>	(1,840) to (2,000)
Decrease (increase) in net income	\$5,026 to \$4,266

## Total Employees

As of March 31, 2011, Merck had approximately 93,000 employees worldwide.

## Earnings Conference Call

Investors are invited to a live audio webcast of Merck's first quarter earnings conference call today at 8:00 a.m. EDT by visiting Merck's Web site, [www.merck.com/investors/events-and-presentations/home.html](http://www.merck.com/investors/events-and-presentations/home.html). Institutional investors and analysts can participate in the call by dialing (706) 758-9927 or (877) 381-5782. Journalists are

<sup>10</sup> Includes an estimated income tax (benefit) expense on the reconciling items as well as a range of estimated tax benefits expected to be recorded in the second quarter as a result of the conclusion of federal tax audits.

invited to monitor the call by dialing (706) 758-9928 or (800) 399-7917. A replay of the call will be available starting at 11 a.m. EDT today for approximately one week. To listen to the replay, dial (706) 645-9291 or (800) 642-1687 and enter ID No. 51049889.

## **About Merck**

Today's Merck is a global healthcare leader working to help the world be well. Merck is known as MSD outside the United States and Canada. Through our prescription medicines, vaccines, biologic therapies, and consumer care and animal health products, we work with customers and operate in more than 140 countries to deliver innovative health solutions. We also demonstrate our commitment to increasing access to healthcare through far-reaching policies, programs and partnerships. For more information, visit [www.merck.com](http://www.merck.com).

## **Forward-Looking Statement**

This news release includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, statements about the benefits of the merger between Merck and Schering-Plough, including future financial and operating results, the combined company’s plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of Merck’s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the possibility that the expected synergies from the merger of Merck and Schering-Plough will not be realized, or will not be realized within the expected time period; the impact of pharmaceutical industry regulation and health care legislation; the risk that the businesses will not be integrated successfully; disruption from the merger making it more difficult to maintain business and operational relationships; Merck’s ability to accurately predict future market conditions; dependence on the effectiveness of Merck’s patents and other protections for innovative products; the risk of new and changing regulation and health policies in the U.S. and internationally and the exposure to litigation and/or regulatory actions.

Merck undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in Merck’s 2010 Annual Report on Form 10-K and the company’s other filings with the Securities and Exchange Commission (SEC) available at the SEC’s Internet site ([www.sec.gov](http://www.sec.gov)).