**Merck drops plans for Medco IPO**

**Drug giant opts for midyear spinoff to shareholders**

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WHITEHOUSE STATION, N.J. (CBS.MW) -- Underscoring the slump for initial public offerings, [Merck & Co.](http://www.marketwatch.com/companies/Merck_Co?lc=int_mb_1001) said Tuesday it's abandoning its long-stalled plans to sell shares in its pharmacy benefit management unit.

Instead, the drugmaker plans to spin off 100 percent of Medco Health Solutions to existing Merck shareholders. Janet Skidmore, a Merck spokeswoman, said the plan is consistent with the company's previous goal of having Medco become a separate, public company.

"The only difference is we're not doing an IPO," she said.

Merck's /quotes/zigman/574389/delayed/quotes/nls/mrk [MRK](http://www.marketwatch.com/investing/stock/MRK) +0.09% stock, a component of the [Dow Jones Industrial Average](http://www.marketwatch.com/investing/index/DJIA?lc=int_mb_1001), rose $1.93 to $58.89.

Hemant K. Shah, an independent pharmaceutical analyst, said the shares appeared to get a boost from the announcement because it confirmed that Merck would sever ties with the pharmacy benefit management unit. The analyst noted that the practices of pharmacy benefit management companies have come under scrutiny from federal and state regulators.

"It'll be a clean break," Shah said.

He also said the spinoff could benefit Medco because it will remove long-standing questions about whether the benefit management unit favors the prescription drugs of its parent company over drugs made by Merck rivals.

Medco specializes in overseeing prescription drug benefits on behalf of government agencies, private employers and health insurance plans. Medco said it had sales of $33 billion last year and oversaw the drug benefits of about 62 million Americans.

**IPO scrapped**

The plan for the Medco IPO had called for 46.7 million shares to be offered at $20 to $22 per share in a bid to raise about $1 billion with underwriters Goldman Sachs and J.P. Morgan.

Skidmore said the company decided not to go forward with its original plan because of the persistent weakness in the IPO market, which prompted the company last year to put off what was expected to be one of the year's biggest offerings. Since then, Skidmore said, there's been no recovery.

On Monday, along with its first-quarter earnings report, Merck had affirmed plans to spin off Medco in mid-2003 "subject to market conditions."

In this year's first quarter, Wall Street saw pricings of only four IPOs -- marking the slowest quarter since the last three months of 1975, according to data cited in Merck's announcement.

After the spinoff, Whitehouse Station, N.J.-based Merck will be focused exclusively on developing and marketing medicines.

As part of the spinoff, Medco will raise an unspecified amount of money through a debt offering, Merck said. The proceeds of the debt offering will be paid as cash dividends to Merck shareholders.

Skidmore said she couldn't yet say how many shares of Medco Merck shareholders will receive under the spinoff, to be completed in the middle of the year. She also said she couldn't yet estimate what the market value of an independent Medco would be.