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Omnicare Profit Tumbles by 60%

By PETER LOFTUS

Omnicare Inc., whose CEO abruptly retired last weekend, reported a steep drop in second-quarter profit due to a slowdown in the volume of drug prescriptions it fills for nursing homes and other clients.

The provider of pharmacy services to nursing homes and assisted-living centers also slashed its 2010 earnings forecast.

CEO Joel Gemunder's departure had come amid concerns about the Covington, Ky.-based company's financial performance. The company's new interim CEO, James Shelton, said Omnicare has been plagued by a negative, "top-down," company culture, in which field workers have endured salary cuts and haven't gotten the necessary support from corporate headquarters. He said this contributed to lost bids for new business.



He vowed to take steps to improve the culture by reorganizing the company and better aligning employees' interests with the company's. He expects to improve resources and support for field workers, which should improve customer service.

"We've had too much corporate wealth and not enough field wealth," Mr. Shelton said on a conference call with analysts, in unusually candid remarks for a corporate chief. "I think if we have it appropriately aligned, our shareholders will benefit. Because we're going to see the corporation stabilize and see the company grow."

In a related development, Omnicare named Erin Ascher as its vice president of human resources. Ms. Ascher previously held the same role at Prime Therapeutics LLC, a pharmacy benefit-management concern. During the conference call, Mr. Shelton said the company didn't have a corporate human-resources department. Omnicare let business units handle most HR matters and outsourced other activities, said Scott Simmons, a partner for recruiters Crist|Kolder Associates, which handled the search.

Mr. Shelton, an Omnicare director since 2008, also said he expects the search for a permanent CEO to take about four to five months.

Omnicare attributed the 60% decline in second-quarter net income to a "marked deceleration" in prescription volumes in its institutional-pharmacy unit. The slowdown stemmed from lower occupancy rates at customer facilities in certain areas, reduced utilization trends and a lower number of beds served.

Chief Financial Officer John Workman said the company will employ strategies to boost its customer base, "which we believe can increase prescription volumes irrespective of soft utilization and facility census trends."

For the three months ended June 30, Omnicare reported net income of \$11.6 million, or 10 cents a share, compared with

\$28.7 million, or 24 cents a share, a year earlier. The latest quarter included a payment of \$37.9 million stemming from the company's \$98 million November 2009 settlement of government allegations that Omnicare made and accepted illegal payments from various business partners; Omnicare didn't admit liability.

Excluding discontinued operations and certain items, earnings for the latest quarter were 48 cents a share, well below the 62-cent mean estimate of analysts surveyed by Thomson Reuters.

Second-quarter sales fell 1.4% to \$1.5 billion.

The company's shares fell 11% to \$22.53 in 4 p.m. composite trading Thursday on the New York Stock Exchange.

Revenue from Omnicare's contract-research business declined 33% to \$27.4 million for the quarter. J.P. Morgan analyst Lisa Gill said this could have been due to cutbacks on research spending by pharmaceutical companies.

Omnicare said declining prescription volumes and continued weakness in the contract-research business prompted the company to lower its 2010 earnings forecast to \$2 to \$2.10 a share, excluding certain items, from a previous range of \$2.60 to \$2.70 a share.

Omnicare expects costs associated with the departures of Mr. Gemunder and another executive, senior vice president Cheryl Hodges, to result in charges of about \$66 million for the third quarter.

Leerink Swann analyst Jason Gurda said the quarterly numbers "were significantly weaker than what we were expecting, even after the unexpected announcement earlier this week" of Mr. Gemunder's retirement.

Separately, the company's former internal auditor has accused Omnicare of defrauding government health programs by submitting false claims for reimbursement for services and engaging in other improper conduct. The allegations were contained in a lawsuit filed last year in federal court in Chicago by John Stone, who served as vice president of internal audit from 2004 until earlier this year.

Mr. Stone had filed the lawsuit confidentially on behalf of the U.S. and state governments under a federal law designed to protect and potentially reward would-be whistleblowers. But the suit was unsealed in June after federal and state authorities declined to intervene in the case.

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