



Valeant Wins Obagi

Description

A couple of weeks ago **Valeant Pharmaceuticals** (TSX:VRX,NYSE:VRX) announced a \$343.8 million (\$19.75/share) bid for **Obagi Medical Products** (NASDAQ:OMPI). Obagi was to become Valeant's 21st acquisition since the beginning of 2011.

Last week a wrench was thrown into Valeant's plans however when a German-based rival, Merz Pharma, stepped up with a \$22/share bid for Obagi. Game on!

There was some question of whether or not Valeant would bump its bid given the company's historical tendency to acquire assets in the 2-2.5x sales range. The Merz bid set the sales multiple at 3.2x for Obagi.

The next day however, April 3rd, Valeant did as any good serial acquirer would do and stepped up the bid to \$24, which implied a 3.5x sales multiple.

Today, Merz indicated that their \$22/share bid was their one and only and Obagi was all Valeant's.

Obagi shares had been trading north of Valeant's \$24 bid and have pulled back, signifying the market's belief that no further bidders will emerge. Valeant shares were relatively flat on the day.

Foolish Takeaway

The Merz bid cost Valeant an extra \$74 million or so to secure Obagi. Valeant has the financial capacity to handle this bump but one of the big risks for this company, given its penchant for acquisitions, is that at some point it takes on a deal that it doesn't have the financial capacity to handle. Valeant has taken on significant debt to fuel its acquisition based growth strategy and if it gets into a bidding war for a more significant asset at some point down the line, financial issues may be part of this firm's future.

Valeant's balance sheet and penchant for acquisitions is a tad scary. In my mind, dividends are a much more shareholder friendly use of a company's capital and we've identified 13 U.S. companies that will have you rolling in dividend cheques before you know it. Simply [click here](#) and we'll send you

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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tmfohcanada

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