



## Why Are Shares of Valeant Pharmaceuticals International Inc Plunging?

### Description

On Thursday morning, **Valeant Pharmaceuticals International Inc** (TSX: VRX)(NYSE: VRX) reported earnings for the second quarter of 2014. Revenue came in at \$2.4 billion (all figures in U.S. dollars) and cash earnings per share was \$1.91, both of which were in line with consensus. But as of this writing, the stock is down \$10 for the day, and is now trading below \$130 (earlier in 2014 the shares were trading as high as \$170).

So why has the stock plunged so much? And has this provided an opportunity?

### The positives

Valeant's results once again demonstrated its ability to grow sales from its acquired businesses, all while running them at a lower cost structure. In the second quarter, "same-store organic growth ex-generics" grew 10% year-over-year.

Included in this number is 12% growth at Bausch & Lomb, which Valeant bought for \$8.7 billion about a year ago. This holds significance because of Valeant's bid for Botox maker **Allergan Inc** (NYSE: AGN) – in fact Valeant CEO Michael Pearson said during the conference call that Bausch & Lomb "will serve as a model for what we hope to achieve for Allergan."

### Lowering guidance

Analysts were expecting Valeant's guidance to be lowered after the company sold its injectables business for \$1.4 billion. But the revenue impact of \$230 million was a little over 50% higher than what these analysts were expecting.

As a result, the company's FY2014 guidance calls for revenue of \$8.0-\$8.3 billion, compared to the previous forecast of \$8.3-\$8.7 billion. This doesn't seem to be a particularly big drop; did the market overreact? And if so, are Valeant's shares now a bargain?

### Not so fast

Make no mistake: Valeant's shares are still very expensive. To illustrate, last year the company made \$5.8 billion in revenue. But the market value of the company (after factoring in net debt) is over \$50 billion. Clearly there are still plenty of believers. Or to put it more cynically, there are plenty of momentum investors willing to bet on continued growth. If Valeant falters, those investors could easily sell the stock en masse, which would be devastating for the share price.

Making matters worse, it is very difficult to discern just how profitable the company is. According to generally accepted accounting standards, Valeant isn't even profitable at all, losing \$2.70 per share in 2013.

This should be worrying enough. But there are also a lot of very smart people betting against Valeant, including Jim Chanos, who became famous for betting against Enron before its collapse. If Mr. Chanos is right again, you don't want to be caught on the other side of that bet.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

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## Author

bensinclair

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