



2 Reasons to Avoid Valeant Pharmaceuticals Intl Inc, and 1 Stock to Buy Instead

Description

In Canada, few companies are able to seriously compete on the global stage. But **Valeant Pharmaceuticals Intl Inc** (TSX: VRX)(NYSE: VRX) is one of them, and has become one of the country's big success stories. Investors have been handsomely rewarded along the way, with the stock increasing by nearly 800% over the past five years.

But there are still some very big reasons for avoiding Valeant, and two are listed below. Then we take a look at a stock you should buy instead.

1. Earnings quality

Before looking at this issue, it is important to understand Valeant's strategy. Instead of spending heavily on research and development, the company prefers to buy product lines and companies. Then Valeant will squeeze costs out of its new franchise. It's a formula that's worked very well since CEO Michael Pearson took over.

But that creates some accounting issues. For one, it makes Valeant's margins appear better than they are, by shifting R&D expenses off the income statement — instead the company incurs these costs through the price paid for acquisitions. Secondly, the company reports various earnings figures (such as cash earnings per share) that don't factor in various acquisition-related costs.

This has started to draw some attention from Wall Street. While activist investor Bill Ackman is willing to defend Valeant, other smart people are not. Included in this mix is Jim Chanos, who became famous for betting against Enron before its bankruptcy. These short sellers often refer to Valeant as a "roll-up," meaning a company that simply uses an inflated stock price to become a serial acquirer. If they are right, then the music will stop eventually, and the result will not be pretty.

2. Price

There's no denying that Valeant shares have rocketed up to astronomical levels. To illustrate, the company reported cash earnings per share of \$6.24 (and actual earnings per share of \$-2.70). But the stock still trades at about \$130, despite all the negative headlines. Clearly, there's plenty of room for

the shares to fall.

1 stock you should buy instead: Brookfield Asset Management

Alternative investment manager **Brookfield Asset Management Inc** (TSX: BAM.A)([NYSE: BAM](#)) also has its fair share of accounting issues. Even the Securities and Exchange Commission has gotten involved, and Brookfield has had to change the way it reports results. Investing in the company is very much like riding in a race car with a blindfold.

But Brookfield has a much longer-term track record than Valeant, with a 19% annual return to shareholders from 1994 to 2013. Over a time period that long, it's clear that Brookfield's success is nothing temporary; rather, it shows just how adept the company is at making sound investments.

Brookfield does have one thing in common with Valeant: a proven ability to make a mark on the world stage. More importantly, Brookfield's business model has much less uncertainty surrounding it. So the company's shares are more worthy of a spot in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:BN (Brookfield Corporation)
3. TSX:BHC (Bausch Health Companies Inc.)
4. TSX:BN (Brookfield)

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Author

bensinclair

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