



Making Sense of the Valeant Pharmaceuticals International Inc. and Allergan, Inc. Acquisition Talks

Description

There's a lot of posturing and name-calling going on between **Valeant Pharmaceuticals International Inc.** (TSX:VRX)(NYSE:VRX) and **Allergan, Inc.** (NYSE:AGN). But through it all, there is a very solid acquisition opportunity that could make everyone a lot of money.

History of the acquisition

Back in February, Valeant and activist investor Bill Ackman started to have meetings to discuss a merger — that's the keyword — with Allergan. I say that's the keyword because there are currently lawsuits going on saying that Valeant and Ackman violated rules against insider trading.

The rule, SEC Rule 14 e-3 says, if company A has plans to take control of company B, people with knowledge of that plan can't buy or sell shares in company B once company A has started. That rule obviously makes sense because it's meant to protect investors from losing tons of money.

But what Ackman and Valeant are arguing is that the intention was never to buy the company; rather, the goal was to merge. It's semantics, really, but in law, that's pretty much the name of the game. In the agreement between Ackman and Valeant, both firms are referred to as "co-bidders." That suggests acquisition rather than merger.

By April 21, Ackman had acquired 9.7% of Valeant — a huge stake. The next day, Valeant and Ackman announced the attempt to merge the two companies.

Allergan filed suit in California saying that Valeant and Ackman engaged in insider trading based on SEC Rule 14 e-3. Ackman can't afford to lose that case because if he does, he doesn't get to vote. Not being able to vote with 10% could destroy the whole offer. Furthermore, the SEC has launched an insider-trading investigation into the matter as well. There could be far graver consequences for both firms if that comes back as guilty.

And all along the way, both firms are saying the other is not playing fair. Valeant has accused the CEO of Allergan of a smear campaign; Allergan says Valeant is a bad business.

So should you buy?

Here's the thing. Valeant's business model is based on making acquisitions. It doesn't invest a lot in research and development because it buys up new firms. And to some investors, that makes this a house of cards.

There are two ways to play this. The first is to buy now with the expectation that Valeant will convince shareholders that it should acquire Allergan. If the acquisition goes through, I predict a 20% jump in the price of the stock almost immediately. However, if it doesn't go through, the stock shouldn't see too much of a drop because I believe the bad news is already baked into the price of the share.

The second way to play this is to wait. Wait until the December 18 Allergan board meeting where the decision will be made. Then buy Valeant after the news is released. Timing here, though, is key.

Whichever decision you make, be mindful of Valeant's business. It acquires firms. That could make it a dangerous investment, especially since it hasn't reported positive earnings in many years.

CATEGORY

1. Investing

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