



## Should You Follow Billionaire Bill Ackman and Bet on Valeant Pharmaceuticals International Inc.?

### Description

Activist investor Bill Ackman of Pershing Square Capital Management has been in the news a lot, with mixed results. On the negative side, he got caught up in a debacle at **JC Penney**, in which he lost about \$500 million. His stake in **Fannie Mae** and his short bet on **Herbalife** have yet to work out.

But Mr. Ackman also has had some big wins – the most notable one in recent years coming at **Canadian Pacific**, in which he successfully ousted some board members and the old CEO. CP has increased four-fold since he began accumulating his stake.

And Mr. Ackman is a very well-respected man on Wall Street, so his actions are certainly worth following. That brings us to **Valeant Pharmaceuticals International Inc.** (TSX: VRX)(NYSE: VRX), a company that he is teaming up with in a big takeover attempt. Mr. Ackman has also defended Valeant on television numerous times, and has indicated he is ready to accept a big stake in the company – assuming the merger attempt is successful.

So that brings up an obvious question: should you believe in Valeant too?

### A strong track record

There is no denying what Valeant has been able to accomplish under CEO Michael Pearson. Under his leadership, the company has adopted a fairly simple strategy: spend money on acquisitions, rather than R&D, then slash costs once targets are acquired. It's allowed shareholders to earn a 60% annual return over the last five years.

### Still going strong

Valeant is still aggressively going after drug maker **Allergan Inc.** (NYSE: AGN), best known as the makers of Botox. Granted, there have been some setbacks. Allergan as ferociously resisted Valeant's offer, calling it "grossly inadequate." Meanwhile, Allergan's market value has reached \$58 billion, surpassing the initial offer. The company has also been in talks with another drug maker, **Actavis PLC**, about a rival bid.

But there are some factors working in Valeant's favour. First of all, Mr. Ackman has been granted authority by the courts to vote in Allergan's next shareholder meeting. He plans to vote against the current slate of directors.

But more importantly, Valeant has other options. In fact Mr. Ackman recently disclosed it owns 8.5% of **Zoetis Inc.** (NYSE: ZTS), which specializes in animal health. Zoetis could be a perfect plan B for Valeant – after all, it meets all the criteria that Valeant looks for in a target company.

The important thing is there's always another option for Valeant. If it sticks to its business plan, the company will be just fine.

### **Don't bet too much**

So Valeant may be worthy of a small portion of your portfolio. But you shouldn't bet the farm.

Valeant is known to use tricky accounting methods, a by-product of its acquisition-first strategy. In fact, the company technically lost \$2.70 last year, according to conventional accounting methods. Secondly, the stock is very expensive, trading for over five times sales. So this is still quite a gamble.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Investing

### **Date**

2025/07/23

### **Date Created**

2014/11/14

### **Author**

bensinclair

default watermark