Valeant Pharmaceutical International Inc. Changes Strategy; Is Now the Time to Buy?

Description

The strategy for **Valeant Pharmaceutical International Inc.** (TSX: VRX)(NYSE: VRX) since its inception has been to acquire companies and integrate them into the overall ecosystem of the bigger corporation. However, after it failed to acquire **Allergan, Inc.** (NYSE: AGN), it had to reevaluate its strategy going forward.

According to an exclusive article in Reuters, the company plans to stop acquiring companies for the next few months to start paying down its debt and bolster the price of the stock. And if you ask me, this is a good thing. Valeant has spent $19 billion since 2008 and grew in value from a $1 billion company to its current valuation of nearly $48 billion. If you had owned the company before the large when the acquisition craze first started, you'd be sitting on a pretty penny now.

Discipline is good

While I would have liked Valeant to buy Allergan, now that it has failed, this is a really good time to get its current operations in order. The CEO of Valeant, Michael Pearson, wants Valeant to be one of the five biggest pharmaceutical companies by 2016. While this might break that, I think getting its debt and cash flow in order will help the company to grow even further.

In its quest to grow, the firm added over $16 billion in debt to its books which gives it a rating of Ba3 by Moody's. That's the third level of junk status. If the company hopes to acquire new companies in the future, it will need to cut that debt and increase its rating. Then creditors are likely to give more to the company to acquire new firms.

Valeant is ready for a strong future

I'm a fan of Valeant because it has a laser sharp focus on profitable products. Many other pharmaceutical companies invest tremendous sums of money in R&D, which is something Valeant doesn't believe in. It'd rather buy potential drugs that are already far enough along in their development process. This minimizes expenses and maximizes reward. So many research projects fail in the pharmaceutical world.

And the truth is, since 2008, the company has added quite a few products to its line. Some analysts believe some of these products could account for over a billion in sales a year, or $2.50 per share profit. Jublia, a toenail fungus medication, and the Bausch & Lomb Ultra contact lenses are just two of the many products Valeant is ready to release over the next few quarters.

Should you buy?

I say yes. The company is clearly focused on cleaning up its books and creating a much stronger company. While acquisitions have gotten it this far, now it will have to prove that it can grow on its own. And I think that it will. If the company is focused on increasing shareholder value, that should result in gains for you. Further, the company has received authorization to spend up to $2 billion on buying back shares of the company. Should that occur, investors will definitely gain a solid reward.

Therefore, I think Valeant has a place in your portfolio going forward. It's one of the many companies that I think you should consider adding to your portfolio. Check out the report below for another five companies that are must have.

CATEGORY

1. Investing

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Date
2025/08/03
Date Created
2014/12/24
Author
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