

Should You Buy Valeant Pharmaceuticals Intl Inc. on the Salix Pharmaceuticals, Ltd. Acquisition News?

Description

It didn't take long for **Valeant Pharmaceuticals Intl. Inc.** (TSX:VRX)(NYSE:VRX) to start acquiring again after the recent failure at acquiring **Allergan, Inc.** Despite the fact the CEO talked about taking a few quarters to start paying down debt and increasing shareholder value, it was revealed over the weekend that Valeant would be acquiring another company.

Salix Pharmaceuticals, Ltd. (Nasdaq:SLXP) is a maker of gastrointestinal disorder drugs and medical devices that are meant to both prevent and treat. According to the news, Valeant is paying US\$158/share, which would value the company at US\$10.4 billion. Tack on the debt Salix has, and the total transaction is worth US\$14.5 billion.

The question a potential investor must ask is whether or not this is a good time to start a position in Valeant.

Not just yet

The truth is, this is a very risky acquisition. It's the largest that Valeant has ever made. Valeant last bought Bausch & Lomb for US\$8.57 billion in cash. This acquisition is nearly US\$2 billion more.

But more than that, this acquisition is risky because Salix is dealing with some serious merchandising issues. In November, the company said that inventory for some of its drugs was too high. That would cut into potential income that the company could generate.

Fortunately, all is not lost because Valeant excels at this. Specifically, Valeant excels at streamlining businesses that are otherwise poorly mismanaged. Michael Pearson, CEO of Valeant, told CNBC that this could result in a savings of at least US\$500 million within six months. By streamlining corporate overhead and R&D, the company will be able to save money.

And if the company can truly combine its gastroenterology products with the wide reach that Valeant has, this might turn out to be one of the best acquisitions Valeant makes on its quest to become a top five pharmaceutical company.

The time will come to buy

Just because I'm not bullish today doesn't mean I'm not a fan of Valeant. The company is growing. It's by no means a true "value investment," but it is growing fast.

Valeant has jumped in share price from \$198 to \$217 in one month. A lot of this is built on the back of the rumors that the company was acquiring. I can see Valeant going to \$300 in the next year or two, but I think buying the company would be better after a dip.

At the end of the day, Valeant is an unconventional investment. Most biotech companies grow

organically; Valeant likes to grow through acquisitions. That has left it with a lot of debt, so it could have many investors concerned.

CATEGORY

1. Investing

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