



## Valeant Pharmaceuticals Intl Inc. Acquired Salix Pharmaceuticals Ltd.:Now What?

### Description

It was announced on Wednesday that **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) had completed its acquisition of **Salix Pharmaceuticals Ltd.** for US\$10.96 billion. This ends the drama that included another company that tried to outbid Valeant, only to be bested by the acquiring juggernaut.

But now the question stands: What should investors do with Valeant stock now that this acquisition is done?

It depends on your level of risk because Valeant is a really risky bet right now. To begin with, the company has over \$20 billion in debt, which is a significant chunk of the company's overall market cap. Furthermore, there's little doubt in my mind that Valeant might try to acquire another company, which will force it to bring on even more debt.

However, due to where interest rates are today and how easy money is flowing into these companies, it doesn't seem like the worst situation for Valeant to take on debt when the times are good. If you can handle that risk of high debt, then Valeant could pay off in the long run because this acquisition could bear some significant fruit for the combined entity.

First and foremost, the cost savings of combining the two companies is expected to be around US\$500 million within six months. This is coming from cuts in administration, sales, marketing, and research and development.

There is also the fact that moving Salix Pharmaceuticals from its headquarters in Raleigh, NC to Toronto, ON, the tax rate will drop severely. Paying only 5% on taxes will have a significant impact on the bottom line for Valeant.

However, the real reason this acquisition went down was because of *Xifaxan 550*. This is an antibiotic that is meant to treat diarrhea caused by E. coli. By May 27 we will know whether the FDA is going to approve the data from a new phase III study. If it does, this acquisition makes perfect sense. According to *EvaluatePharma*, Xifaxan could account for nearly US\$2 billion a year in sales by 2020. That's 24% of the total expected 2020 sales for the combined entity. And what's particularly good is the patent for Xifaxan doesn't expire until June 2024, so there is a long runway for Valeant to profit on it.

### Should you buy?

If times were different, I would say avoid Valeant because it has a lot of debt. But the way the economy is right now with money lending, it doesn't seem to be too much of a problem. If the debt concerns you, then you should avoid it.

However, if you want to follow hedge fund managers like Bill Ackman, buying Valeant isn't a bad idea. However, I would wait to see if the price the stock is trading at now is its new low, or if it will break the support and fall back to pre-February numbers. Should it stay in the \$240s, we might have a new price point for entry.

### CATEGORY

1. Investing

### TICKERS GLOBAL

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

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