



Is Valeant Pharmaceuticals Intl Inc. Another Berkshire Hathaway?

Description

While the title might seem totally bombastic, Bill Ackman, the hedge fund manager of Pershing Square Capital, believes that **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) could actually be an early-stage **Berkshire Hathaway**.

The reason Ackman, who has invested 20% of his capital into Valeant, believes this is because of how many acquisitions Valeant makes every year. In his eyes Valeant isn't just a pharmaceutical company. Instead, it is a "platform company" that buys other companies to increase its own value. And if you think about the business that Berkshire is in, the comparison suddenly starts to make a little sense.

According to Ackman, Valeant is really exceptional at acquiring businesses and integrating them into the overall business. Over the past seven years, Valeant has acquired over 100 businesses, and it's clear that the company has no intentions of slowing down anytime soon.

But here's where Ackman really makes an interesting claim. These sort of platform companies are, according to Ackman, perpetually undervalued. Specifically, Wall Street values the business based on the assets that it currently holds, not based on the assets that it will add. This means that every time Valeant acquires a large business that will move the needle, suddenly Valeant is grossly undervalued and the price will rise.

Ackman offered two examples. When the company agreed to buy **Bausch & Lomb**, the stock jumped from \$74 to \$95. And when the company agreed to buy **Salix Pharmaceuticals Ltd.** (NASDAQ:SLXP), the stock jumped from \$217 to \$250.

That's great, but should you buy?

My stance on Valeant Pharmaceuticals remains the same. It is a risky company that excels at buying out other companies to grow the business. It has a considerable amount of debt and it is not going to slow down its acquisitions, especially with Ackman predicting that the company will do acquisitions worth anywhere from US\$7-20 billion every year.

That being said, if Ackman is correct in his assessment, Valeant is just getting started. It has a

considerable amount of room to grow, especially with how many acquisitions are taking place in the pharmaceuticals business. Therefore, I wouldn't be surprised if this stock were to rise to \$300 and higher.

However, understand that it is risky and that you should not put a significant amount of money into it. While Ackman may have 20% of his money tied up in the company, he definitely bought it when it was much cheaper, so if the shares were to drop some, he'd still probably be profitable.

And if Ackman is right and Valeant does turn into another Berkshire, then investors are going to make a lot of money.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date

2025/08/03

Date Created

2015/05/06

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