



## Could the CEO of Valeant Pharmaceuticals Intl Inc. Be the Next Warren Buffett?

### Description

One thing that Warren Buffett does very well is buy businesses. With the amount of capital that he has available to him through **Berkshire Hathaway Inc.**, he can go out and buy out an entire company without blinking an eye.

And then when he does buy these companies, he is able to integrate them into the overall structure, and take the cash flow they provide to make even larger investments. This is how Buffett went from buying stocks—which he still does to an extent—to outright buying businesses.

Believe it or not, J. Michael Pearson, the CEO of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) is doing something quite similar. And Bill Ackman, the hedge fund manager of Pershing Square Capital, believes that Valeant could be this generation's Berkshire.

Ackman has invested 20% of his funds into Valeant. The reason he believes that he is holding a large stake in the next Berkshire is because of how many acquisitions Valeant makes every year. He views the company as a "platform company," meaning it buys other companies to increase its own value. Instead of launching organic projects, it just buys them. That sounds a lot like Berkshire to me.

Over the past seven years Valeant has acquired over 100 businesses. And according to Ackman, they've been integrated into the larger organization rather seamlessly. If Pearson is good at one thing, it's finding efficiency when combining companies.

### Why this matters to you

Valeant isn't slowing down. The company is going to continue buying other firms—large and small—with the goal of increasing its size. That's how Berkshire works and that's likely how Valeant is going to continue to work over the coming years.

This matters to you because platform companies are perpetually undervalued. Ackman has two examples to back this up. When the company bought **Bausch & Lomb**, the stock was valued at \$74. The announcement of its agreement to buy made the price jump to \$95. When it agreed to buy **Salix Pharmaceuticals**, the stock jumped from \$217 to \$250.

Now, there's no denying that this stock has been on a meteoric rise. And Ackman's belief is that the company will continue to make acquisitions in the \$7-20 billion range every year. Pearson is not looking to create just another company; he wants to build a behemoth. And his strategy is to follow in the footsteps of the greatest investor of all time: Warren Buffett.

All of this, however, doesn't immediately warrant a buy. Valeant is risky. It has a lot of debt and it doesn't pay a penny in dividends to investors. Therefore, what you're hoping for is a continuous rise in the price per share. In the event that the market corrects, this stock will drop because all stocks will drop.

But long term, if Pearson is successful and if Ackman can correctly predict the undervaluation of platform companies, then this stock will reward investors handsomely.

## CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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

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