Buy Valeant Pharmaceuticals Intl Inc. for Global Pharmaceutical Diversification

Description

As the weeks and months go by, I become more convinced that **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) is one of Canada's top stocks that will make many investors incredibly rich. Because of the type of business model the company employs, it is able to grow rapidly and launch new products without having to wait years at the cost of hundreds of millions of dollars.

Many, though, are concerned about the way the company grows. Rather than pushing products through an organic pipeline, Valeant acts more like a marketing and distribution company. It buys up smaller companies that have products that are just about ready to launch. The company then integrates the business, streamlines operations, and markets the product to its incredibly large network.

The key here is its acquisitions. There are two ways to grow a pharmaceutical company. The first is through the organic pipeline. The scientists at a company can try to come up with new medicines, with the majority of them failing miserably. Or a company can do what Valeant does and grow rapidly by acquiring other companies. Why spend money on the failed drugs when you can buy a company that has drugs ready to make money now.

Here's what makes me particularly intrigued by Valeant, though. Without realizing it, investors are getting a globally diversified pharmaceutical company when they buy this company. In 2013 Valeant bought **Bausch & Lomb** for US$8.57 billion. What Valeant got out of this was access to the ophthalmological sector, but more importantly, it gained access to China. Over the coming years, the need for eye care is going to bloom in China, and Valeant has a foothold in it.

Another acquisition is one that was just announced. Valeant is buying **Amoun Pharmaceutical Co.**, an Egyptian drug-maker, for US$800 million. This company will give Valeant even more exposure to North Africa and the Middle East, both areas that are continuing to develop rapidly and will need the drugs that Amoun puts out.

To try to set up operations in these countries would prove very difficult for Valeant; however, by acquiring companies in those regions, Valeant gains a product and a distribution network. As a marketing and distribution company, that's exactly what Valeant needs to succeed.

How to value Valeant

I am obviously a fan of the company and think that it is going to continue to grow in the coming years. However, what makes Valeant tricky is the fact that it is very hard to value. From a classic P/E perspective, it is overpriced. Yet, if we listen to what Bill Ackman, founder of Pershing Square Capital, has to say, valuing Valeant is less about present day and all about the future.

He has compared the company with **Berkshire Hathaway Inc.** because it is a platform company. That means that it acquires companies to gain value rather than launching new ones, which sounds exactly like Warren Buffett's outfit. The problem is that many investors aren't looking at Valeant through that lens.

According to Ackman, portfolio companies are perpetually undervalued because the markets can't keep up with the acquisitions. When Bausch & Lomb was purchased, Valeant traded at $74. It jumped to $95 right after the announcement.

Therefore, buying this stock is all about the future. If you believe that a globally diversified pharmaceutical company that is growing fast like Berkshire is a worthwhile investment, buy shares now. They may seem expensive, but if Ackman is right, they're undervalued.

CATEGORY

1. Investing

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