



## Are Valeant Pharmaceuticals Intl Inc. and Concordia Healthcare Corp. Bargains After Crashing?

### Description

The past week and a half has not been fun for shareholders of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) or **Concordia Healthcare Corp.** (TSX:CXR)(NYSE:CXRX). At the beginning of last week, the two companies' stocks traded at \$97 and \$319, respectively. By the close of trading Tuesday, those prices had fallen to \$48 and \$212.

So, what exactly caused these crashes, and are these two stocks now a bargain?

### Fed up over high drug prices

Prescription drug prices have become a hot topic recently in the United States, thanks largely to the actions of biotech entrepreneur Martin Shkreli. Back in August, Mr. Shkreli's company acquired the rights to Daraprim, a drug that treats a rare parasitic infection, and instantly raised its price by a factor of 55.

And it's clear where Americans stand on the issue. According to the Kaiser Health Tracking Poll, over 70% of Americans think the cost of drugs is unreasonably high. And 76% of Americans think that "Making sure that high-cost drugs for chronic conditions are affordable to those who need them" should be a top priority for the president and Congress.

No other healthcare-related goal got that much support. Even among Republicans, controlling drug costs is a higher priority than repealing Obamacare.

### How Valeant and Concordia are affected

Mr. Shkreli is not the only one facing scrutiny. Valeant has also come under fire for its tactics, especially with regards to two heart drugs. Democrats in Congress have even demanded that Valeant be subpoenaed, which caused Valeant's share price to crash more than 16% on Monday.

Concordia is also vulnerable, because it had just filed a public offering to raise US\$520 million, which will be used to finance a US\$3.5 billion acquisition.

### Where do we go from here?

Democratic frontrunner Hillary Clinton has already responded to the controversy, proposing some fairly drastic measures to cut drug prices. This includes capping patients' drug costs at US\$250 per month, and a minimum level of R&D expenses for most drug makers.

There are other things that can be done. A huge majority of Americans are in favour of importing more cheap drugs from Canada. There is also broad support for Medicare negotiating drug prices.

Either of these initiatives would hurt Concordia and Valeant. The U.S. accounts for practically all of Concordia's revenue, and over 60% of Valeant's. Making matters worse, both companies are heavily indebted, so any change in business prospects could have a big impact on equity value. And to top it all off, both companies' share prices are very expensive by most standards.

Granted, we are still talking about U.S. politics, so there's a good chance that nothing will change. And in that case, there's plenty of upside for these stocks, especially Concordia's. But this is a very dangerous game to play, one that you should probably stay away from.

### CATEGORY

1. Investing

### TICKERS GLOBAL

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