



Why Did Concordia Healthcare Corp. Shares Fall 50%?

Description

On the morning of September 8th, **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX) was flying high. It had just announced another big acquisition, one that would increase its earnings per share by 35% in the first year. The U.S.-listed shares opened at US\$89, an all-time high.

Fast forward to Friday afternoon, and the shares closed at US\$43.90, down more than 50%. So, what exactly happened, and is this a good buying opportunity? We take a look below.

What went wrong?

The bad news started when investors fully digested the new acquisition. Like Concordia's other purchases, it required a big capital raise, but this one was apparently too much for investors to stomach. The stock fell below US\$75 that day.

From there, the shares drifted down further as investors worried about the effects of Concordia's equity raise. Put simply, a bunch of the company's shares were about to be sold, and investors got scared this would drive down the stock price. By Friday September 24th, Concordia's shares were trading for less than US\$67.

Then on the following Monday, Democratic lawmakers demanded a subpoena on **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), one that would have forced the company to release details of recent price increases. The Democrats were reacting to the recent uproar over high drug prices, which has become the number one healthcare priority for American voters.

This made Concordia's shareholders especially nervous, because 100% of the company's business is in the United States, and profits primarily depend on drug price increases. Concordia's stock price dropped by about a quarter that day, closing below US\$43.

From there, some big stop-loss orders were triggered, sending the shares well below US\$40. Bargain hunters then stepped in, leading to a modest recovery.

Is this a buying opportunity?

There are some serious risks that come with an investment in Concordia. First of all, the company is a serial acquirer, which makes the business difficult to value. And when using traditional financial metrics, the stock is very expensive. Thus, an investment in the company requires a lot of faith in management—not unlike an investment in Valeant.

Furthermore, the United States could pass new legislation to control drug prices. Hillary Clinton has proposed some drastic measures, including a US\$250/month limit on out-of-pocket drug costs in health insurance plans. Even more modest steps can have a big impact; for example, Medicare can negotiate lower prices for drugs, or the United States could import more pharmaceuticals from Canada. Mrs. Clinton supports these measures as well.

But at the same time, Concordia shares have clearly fallen way too far, which tends to happen when everyone is selling at the same time. And any new legislation would require approval from Congress, which is far from a given. So, if you're willing to take some risks, Concordia is worth a small slice of your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/07/21

Date Created

2015/10/05

Author

bensinclair

default watermark