



## Is Valeant Pharmaceuticals Intl Inc. a Buy After Recent Volatility?

### Description

One of the most annoying things that can happen to a company is to enter the crossfire of a politician. Typically, this results in a panicked sell-off by investors, resulting in the price of shares tanking for that company. **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) experienced this and saw its stock drop 16% in one day. All told, in one month, the company has lost 30% of its value, dropping from \$319 to close to \$200 today.

Valeant purchased two different heart drugs and immediately hiked the prices by over 200% and 500%. The stock dropped because one politician brought this to light. As is typical with politicians, Valeant's name was dragged through the news, making it appear as if this company was an evil firm. Right or wrong, bad press can often hinder the company significantly, and we saw 30% of its market cap evaporate.

But what really has investors concerned is the fact that politicians are now presenting ways to decrease the total cost that consumers have to pay for prescription drugs. Former secretary of state Hillary Clinton presented a plan that would cap monthly prescription costs at US\$250 a month, and mandated some base levels of R&D research.

It's that second point that should have investors particularly concerned. Right now, Valeant Pharmaceuticals has a unique business model whereby it acquires companies that have products ready to go to market and then cuts the R&D budgets. If Valeant has to start investing in R&D itself, that could interfere significantly with the profit margins for the company.

### Should investors buy?

The reality is, the bulk of the company's revenue comes from the United States. And if the above proposals were to happen, it could hurt the company. However, I seriously doubt that the United States is going to implement any long-term pharmaceutical drug reform in the near future. The earliest I see this occurring is sometime in 2017 or 2018.

In a letter to employees, CEO Michael Pearson said that the company expects to generate 30% of its revenue from parts of the world where it doesn't increase the price of drugs and, in some instances,

actually decreases the price. Further, the company is expecting that its recent Salix acquisition will generate 20% of its revenue in 2016.

Valeant has been experiencing significant, double-digit growth for some time now. And until the government is able to push laws in place to slow that down, I don't expect growth to slow either. Therefore, buying this company at a 30% discount is a really lucrative opportunity. I remain bullish on Valeant, but I would think about this stock as a mid-term hold until we know more about the political ramifications.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

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

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