



Why Did Valeant Pharmaceuticals Intl Inc. Plunge Another 9%?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) shares have been in absolute free fall in recent weeks. To illustrate, the company's stock price closed at nearly \$320 on September 18. Fast forward to Thursday, and those same shares opened at just over \$200.

So, what's going on?

Under investigation

After markets closed on Wednesday, news surfaced that Valeant received subpoenas from two U.S. attorney's offices, one from the District of Massachusetts, and the other from the Southern District of New York. The subpoenas were partly related to the company's pricing decisions. On Thursday morning, Valeant's stock opened down 9% in response.

Some background

In the United States, pharmaceutical companies are renowned for raising drug prices, often by very large amounts, and this has become a hot-button issue for the public at large. Even Republican voters want to see drug prices lowered just as much as they want Obamacare repealed. The issue turned into a full-blown controversy in September after Turing Pharmaceuticals acquired the rights to Daraprim, then raised the drug's price by more than 5,000%.

This made Valeant somewhat vulnerable as well, because the company had implemented its own big price hikes earlier this year. To be more specific, Valeant raised the price of Nitropress by more than six times, and tripled the price of Isuprel after acquiring the two heart medications back in February. Democratic lawmakers have insisted the company be subpoenaed, which has contributed to the stock's downfall.

It gets worse

In response to the Turing Pharmaceuticals scandal, Hillary Clinton has come out with her own proposals for containing drug costs. Some of these include new regulations that would have a tough time passing

Congress. But there are also more common-sense solutions; for example, she proposes that Medicare negotiate its own drug prices rather than pay retail. She's also in favour of more drugs being imported from Canada.

Any of these proposals would severely damage Valeant's share price. The company generates a big majority of its revenue in the United States, and its business model is very dependent on drug-price increases. Making matters worse, Valeant has over US\$30 billion in debt. And if that wasn't enough, Valeant's shares still trade for roughly 20 times its "cash earnings per share." So, there's certainly plenty of downside.

Is this still an opportunity?

Even before the latest controversies, Valeant was a very risky investment. And now there are simply too many unpredictable factors driving the company's fortunes. There are better places for you to park your money.

CATEGORY

1. Investing

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