



Valeant Pharmaceuticals Intl Inc. Tries to Downplay the Drug-Pricing Scandal

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has been hit hard by allegations of drug pricing, driving the stock down 40% over the past month. Chief Executive Officer Michael Pearson says the company plans to reduce its reliance on drugs, whose prices have been substantially raised, all the while insisting that his company has not been involved in unfair drug pricing.

“The pharmaceutical industry is being aggressively attacked for past pricing actions—not just Valeant, but all companies,” Pearson said in a conference call following the company’s latest earnings report. “Given the environment, the pricing that pharmaceutical companies will take in will be more modest,” he added, suggesting a maximum 10% increase in the future.

The company said that during the next 12 months it will consider selling or privatizing its neurology and “other” drug categories, in which much of the “mispriced” buying has occurred; it’s a small part of Valeant’s business, according to Pearson.

Evercore ISI analyst Umer Raffat said because the drugs in question represent only about 10% of Valeant’s revenues, his outlook for the company remains unchanged. “If you take out neuro and ‘other’, which they may potentially divest, it actually makes the volume price even lesser to the overall business,” he said in a note to clients. “It’s not a big part of their business, and that’s the most important thing.”

So, why is the stock dropping like a stone? Well, even though the company insists its involvement in the drug-pricing scandal is minimal, the U.S. Attorney’s offices in Massachusetts and New York have issued court orders forcing Valeant to turn over documents tied to the U.S. price hikes of two heart drugs.

In the U.S. prices for Nitropress and Isuprel increased by 212% and 525% after the company acquired the rights to sell them. Despite Pearson’s attempts to soothe the market, investors hate uncertainty, and that’s just what this scandal has produced.

This week CIBC World Markets cut its price target on the U.S. version of the stock to \$200 from \$275, citing the company's statement that the price of drugs will moderate.

The scandal overwhelmed Valeant's mainly positive earnings for the third quarter, which were released on Monday. The company's net income rose to \$2.74 per share in the third quarter, up from \$2.11 in the third quarter of 2014. Revenue rose to \$2.78 billion, just above estimates of \$2.77 billion.

The problem for Valeant is that even if it has cleaned up its act over drug pricing, the story could remain high profile as it wends its way through the U.S. court system. For long-term investors, this could be a buying opportunity. But it comes with risk if the courts ultimately sanction Valeant.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/15

Date Created

2015/10/21

Author

dwatt

default watermark