2 Ways That Valeant Pharmaceuticals Intl Inc. Shares Could Get Crushed

Description

There is a sweet bit of irony in the troubles facing **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). Its stock went into a slide last week after short-seller Andrew Left suggested the company was using a complex structure to "stuff the channel" (i.e. report false revenue to a company under its control). His conclusion now appears to be wrong; there is no longer reason to believe that Valeant is inflating revenue.

Yet Valeant's business practices have raised plenty of other concerns, which is why the company's share price hasn't recovered. In fact, there are really two ways that Valeant's shares could plummet. We take a look below.

The issues

Valeant's troubles revolve around Philidor, a specialty pharmacy that seems to be under Valeant's control.

According to numerous reports, Philidor has used some suspect tactics to boost sales for Valeant. This includes aggressively providing refills, covering patients' copay requirements, and shipping product through other pharmacies in its "network".

These practices often lead to prescription sales that otherwise would not have taken place. Ultimately, that cost falls on health insurers, who must pay for these drugs. Some of Philidor's methods may also be illegal.

Two big question marks

There are two major ways this could hurt Valeant, other than the damage currently being done to the company's reputation.

First of all, Valeant could potentially be held liable for Philidor's actions. Bronte Capital, one of the research outfits that has uncovered dirt on Valeant, suggests that Philidor is guilty of many counts of mail fraud. This carries a penalty of US$1 million per instance, and we shouldn't "try to calculate the fine."

Valeant claims that it is protected, since it doesn't technically own Philidor. But according to an article in *The Wall Street Journal*, Valeant employees were installed at Philidor, and often went to great lengths to hide this relationship.

Secondly, and perhaps more importantly, health insurers may start cracking down on Valeant. After all, they are surely tired of paying for drugs that patients don't really need, and they wouldn't like Valeant's deceptive practices either.

What this means for the stock

To be very clear, Valeant's stock still has a long way to fall. The company has roughly US$30 billion of debt, and its stock price implies that more favourable acquisitions are on the way.

So, at this point, you should steer clear of Valeant. This story won't be over for a long time.

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