



## Why Bill Ackman Thinks Valeant Pharmaceuticals Intl Inc. Will Quadruple in 3 Years

### Description

As **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), one of the firm's largest investors is coming to its defence: William Ackman, the chief executive of Pershing Square Capital Management.

As of its most recent 13F filing, Pershing Square held nearly 20 million shares of Valeant in its fund, and Mr. Ackman bought another two million shares early last week. Then on Friday morning he hosted a conference call in which he defended Valeant, its accounting, and its business practices.

Mr. Ackman also made a very bold prediction: that Valeant's U.S.-listed shares would reach US\$448 by 2018. Such a target seems a long way off; on the day that he spoke, the company's shares had sunk below US\$100.

So, why is Mr. Ackman so confident? And is his confidence justified?

### Finger pointing

Mr. Ackman said that Valeant's downfall has been due to a number of factors, none of which are related to its business practices.

To start, he said that Valeant's PR efforts have been awful. In fairness, he does have a point here. Valeant was slow to respond to the accusations leveled against the company; it took five days for the company to give a detailed rebuttal of Andrew Left after he published his scathing report on Valeant and Philidor.

Mr. Ackman also stated that Valeant isn't well liked by other drug companies mainly because of jealousy. He is certainly right about Valeant's lack of popularity—the pharmaceutical lobby PhRMA hasn't even come to the company's defence. But his claim that jealousy is the primary cause is very dubious.

Finally, Mr. Ackman blamed journalists and the market for misunderstanding Valeant's business model. Once again, there is an element of truth here. Most people still don't have a very clear picture of

Valeant, but that is primarily because the firm is so complex and secretive.

### **A similar defence**

While appearing on *The Business News Network*, Jason Donville of Donville Kent Asset Management gave a similar defence of Valeant. He insisted the company's biggest problem was Mr. Left and indicated that Mr. Left was the one most responsible for Valeant's slide.

In other words, Mr. Donville was claiming that Valeant is being wildly misunderstood, and that's why the stock is down.

### **Why you should stay far away**

Mr. Ackman and Mr. Donville are both very accomplished investors with outstanding track records. But in this case it would be very dangerous to follow their advice.

The reason is simple: it's now obvious that Philidor was overaggressive in selling Valeant's products. That's why Valeant, along with some big Pharmacy Benefits Managers, have cut ties with Philidor.

And according to the *Wall Street Journal*, Valeant was heavily influencing Philidor's actions. Such allegations could have big consequences for the company. This story is far from over.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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