



Valeant Pharmaceuticals Intl Inc. Has Lost \$100 Billion in Value Since August. Is it Going to \$0?

Description

It's not often that you see companies worth \$150 billion lose two-thirds of their market cap in a matter of months. **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), however, is one of those rare cases.

The company is billed as a "specialty pharmaceutical roll-up." Essentially, it has historically been very aggressive with acquisitions, buying up companies and slashing the research and development budgets. Once the costs are gutted, they mark up the cost of their drugs significantly. Since 2010, this strategy has proven quite successful. Over the past five years, revenues are up over 1,000%, with profits jumping to roughly \$1 billion.

What has caused it to lose over 60% of its value in the past 90 days?

Attacks from short sellers

Funds that engage in short selling profit when stocks decline. Citron Research is widely respected as one of the best, with its research being widely read on Wall Street. That's why when the company targeted Valeant, people listened.

Citron's primary claim is that Valeant uses a network of specialty pharmacies that the company controls to create false demand for its products, propping up sales for its high-priced drugs and keeping patients and their insurance companies from switching to less costly generic drugs. If this is true, it could have extreme ramifications for the entire business. Recently, Citron Research updated its price target to \$0.

Pressure is mounting

The bad news seems to be growing for Valeant. This week Valeant disclosed that it had received a subpoena from the U.S. Department of Justice regarding its Bausch & Lomb division. It is also facing numerous lawsuits from investors, former business partners, and government agencies such as the FBI. Lately, the company has also been receiving some difficult press from some well-known names.

Last week, **Berkshire Hathaway Inc.** CEO Charlie Munger issued a statement calling Valeant's practice of acquiring drugs and then jacking the prices "deeply immoral." Munger also questioned Valeant's quality of earnings, saying that its accounting practices were less than reliable. Meanwhile, **Goldman Sachs Group Inc.** announced that it was downgrading Valeant, stating that they "have less confidence the market will reward the stock anytime soon."

Buy or sell?

Investigations typically can take a long time. Regaining investor trust can take even longer. Even if the allegations turn out to be false, Valeant may never fully recover. The only voice of support seems to be from one of its largest shareholders, Bill Ackman, the CEO of Pershing Square. There may be some bias, however, as his losses on the stock are estimated to be around \$2 billion.

With nearly no clarity on the company's allegations, it's tough to recommend to anyone that they should hold the stock. You're most likely better off owning a business that you know well and have more information about.

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