



The 3 Biggest Threats Facing Valeant Pharmaceuticals Intl Inc.

Description

On Monday shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) rose sharply after Andrew Left of Citron Research said he is done reporting on the company.

To make a long story short, Mr. Left has done more digging on Valeant, but is unwilling to face the scrutiny (including potential legal costs) associated with commenting on Valeant. He urged whistle-blowers to instead approach “mainstream media contacts with large distribution and staffs who are prepared to deal with the possible years of litigation that surround such information.”

Yet at the same time, Mr. Left reminded us that there are some big concerns for Valeant going forward. They can be broken down into three broad categories; we take a look at each below in turn.

1. Insurance companies will fight back

Valeant's drugs can get very pricey, but very often this cost is not borne by the people taking them. Instead, the cost often falls on health insurance companies. And they are certainly not amused.

There are a number of ways that insurance companies can fight back. For instance, they can request an audit whenever a pharmacy seeks reimbursement for a Valeant drug. They can refuse to accommodate Valeant's price increases. Or they can refuse to work with pharmacies that have ties to Valeant.

We've already seen pharmacy benefit managers such as **Express Scripts** and **CVS** cut ties with Philidor. I would expect more such news to follow.

2. Valeant may be held liable for Philidor's actions

Valeant has maintained throughout this ordeal that it does not own Philidor, hence it cannot be held legally liable for Philidor's actions. But according to *The Wall Street Journal*, Valeant had heavy influence in Philidor's operations.

This could be a big problem. According to *Bronte Capital*, there is evidence that Philidor has committed

roughly 10,000 cases of mail fraud. Such a crime is punishable with a US\$1 million fine per case, which would bring the total levy to US\$10 billion. If Valeant were ever on the hook for such a fine, it could send the stock price to 0.

3. The business model is under threat

Valeant's business model, which relies heavily on acquisitions and price increases, has been enormously successful in recent years. But there are some real threats to this model.

First of all, Valeant's declining stock price means the company has less ammunition to make acquisitions. Besides, with all the recent allegations, target company shareholders will without doubt be more resistant to taking Valeant stock.

Secondly, Valeant's ability to raise prices may also be curtailed. The company is under investigation from two U.S. attorney's offices and is also under heavy pressure from politicians and the public at large. To make a long story short, it looks like the party is coming to an end. Shareholders, be warned.

CATEGORY

1. Investing

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