



Has Valeant Pharmaceuticals Intl Inc. Changed?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has been the subject of a lot of media attention lately, with the stock dropping sharply over the past several months by over 50%. Prior the epic collapse of the stock, Valeant was the largest company by market value on the TSX, with a value of over \$110 billion. By way of comparison, the current market value of the company hovers just under \$40 billion.

Whether or not the company is worthy of an investment is a valid question that deserves to be answered. Let's take a look at why the stock tanked and some of the recent events that might just support a small investment.

Why did Valeant drop?

The reason for Valeant's drop was also the reason for the company's meteoric growth over the past few years—its growth strategy.

Valeant is a company that, until recently, has been focused on growth through acquisition. The company's extensive distribution network is used for all of the companies that Valeant has acquired over the years, with a bump in prices on new drugs offered through Valeant thrown into the mix.

This has worked exceptionally well for the company, at least up until Democratic presidential candidate Hillary Clinton sent a single tweet regarding price gouging. While the focus of the tweet was aimed at another company, Valeant was thrown into the spotlight.

If this were not enough, allegations of fraudulent sales by Philidor Rx Services emerged, whereby prescriptions were allegedly altered to specify Valeant-branded drugs over the less expensive generic versions.

The relationship between Valeant and Philidor was highly scrutinized. Among the discoveries was that, for \$100 million, Valeant had purchased the option to buy the company for \$0, providing a further milestone payment to Philidor in the amount of \$33 million and even consolidating Philidor into Valeant's financial statements.

To put it mildly, the companies are intertwined in a financial, organizational, and legal mess, and the disappointment from investors was evident in the massive drop in price that ensued.

Valeant is starting to creep up again

The stock has started to gain back some of the value that was lost. In the past month Valeant is up by 8%, and the stock is up by 13% just in the past week.

Given how quickly the stock dropped, it can be said that part of the drop was based on emotions rather than company fundamentals. After all, \$70 billion of market value can't simply be erased in a little over a month.

Valeant currently trades just shy of \$132. The company is clearly in a damage-control and rebuilding mode and has since cut all ties with Philidor and dismissed another recent report citing that Valeant is involved with additional pharmacies beyond Philidor.

The company has also stated on previous occasions that the growth-by-acquisition model does not necessarily need to include drug price increases to be profitable. It stated more recently that the acquire-and-bump-prices practice will be stopped.

The company may be saying all the right things to appease the market, but the fact remains that there will likely be multiple lawsuits filed that could mean significant stress on both cash flow and debt for some time.

In my opinion, investors who already have a position in the company from the previous high-priced period may want to increase their holdings and wait for the stock price to rise if they are up to the risk. Investors with less of an appetite for risk who thought Valeant was a sound investment might be better suited with another investment.

CATEGORY

1. Investing

TICKERS GLOBAL

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