



## Valeant Pharmaceuticals Intl Inc.: We Are Still in the Early Innings

### Description

**Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) shares have rebounded nicely over the past couple of weeks; as of this writing, they have gained roughly 40%.

Interestingly, there have been few new developments over this time, and that may be precisely why Valeant's stock price has rebounded. In other words, the lack of headlines may have convinced some investors that Valeant's troubles will pass.

But don't be fooled. Valeant is still in the early innings of its saga, and the end result could be devastating. We take a closer look below.

### More dirty tricks

If you believe Valeant's story, then all of its problems can be traced to a rogue specialty pharmacy called Philidor, which accounted for just a small percentage of the drug maker's sales (before Valeant terminated the relationship).

But old habits die hard, and some believe that Valeant is still using similar tactics. One of them is John Hempton of Bronte Capital, who notes that numerous pharmacies have been sprouting up that all seem to have ties to Valeant. One of these pharmacies recently applied for a license in Arizona, with former Valeant employee Gary Tanner presenting himself as the owner.

Meanwhile, numerous authorities—from attorneys' offices to politicians—are investigating Valeant for its pricing practices. It's safe to say that there are still many more headlines to come.

### The role of pharmacy benefit managers

Pharmacy benefit managers (PBMs) such as **Express Scripts** can be thought of as the "gatekeepers" in the pharmaceutical world. Their role is mainly to negotiate drug prices with the pharmaceutical companies and process drug claims.

The power of PBMs cannot be overstated. They were the ones who first decided to stop working with

Philidor (which is what prompted Valeant to sever that relationship). They are also making life very difficult for Turing Pharmaceuticals after the company raised the price of Daraprim by over 5,000%.

If PBMs start dropping Valeant drugs from their formularies and replace these drugs with generics, then Valeant's profits could take a significant hit.

### **Simply too risky**

Let's not forget, Valeant has roughly US\$30 billion in debt, which isn't all that surprising for a company that's so acquisitive. But it does mean that any dent in its business model could put pressure on its balance sheet, too. This is not a position any company wants to be in, much less one with as many enemies as Valeant has. You should stay far away from this stock.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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