



This Week Could Make or Break Valeant Pharmaceuticals Intl Inc.

Description

It seems that every week, the pressure only grows on **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). Lawmakers are outraged over the company's steep drug price increases, regulators are scrutinizing its patient-assistance programs, and questions remain about Valeant's use of specialty pharmacies.

Valeant has not been standing still as these problems mount. The company has been outspoken in defending its business model and has engaged in a public-relations battle with its critics. It cut ties with the controversial specialty pharmacy Philidor. And most recently, *Reuters* has reported that Valeant has hired a prominent Washington DC attorney along with "crisis public-relations experts with political sources."

This week will be especially important for Valeant as the company prepares for its investor day on Wednesday.

Looking for answers

Valeant and its allies (mainly Bill Ackman) have maintained that the company has been transparent throughout this process. But there are still some big questions that need to be addressed.

First of all, what exactly was Valeant's role in Philidor's operations? Valeant maintains that Philidor operated independently, but others—including *The Wall Street Journal*—disagree. Valeant is currently conducting an investigation into the matter, and investors will be expecting some insight about it on Wednesday.

More importantly, to what extent is Valeant's business model under threat? The company has done very well in recent years by making acquisitions and steeply hiking prices. But with all of this scrutiny, further price hikes are essentially off the table. Acquisitions will also take a back seat due to Valeant's falling share price and its high debt levels.

The big picture

There are still many analysts who think you should buy Valeant. For example, **JP Morgan** analyst Chris Schott notes how the company is trading at just six times his estimate for 2016 earnings.

But let's not forget what these earnings estimates are based on. Valeant makes its money primarily from charging very high prices for drugs that often have generic alternatives. Now with all this scrutiny, Valeant will find itself under attack from insurers and pharmacy benefit managers, and drug prices may have to be dramatically lowered in response. Making matters worse, without the ability to make more acquisitions, Valeant won't be able to grow its way out of this mess.

So if you're thinking of buying Valeant shares, just remember that there are some extreme risks you need to watch out for. Hopefully, the company will clear some of these up on Wednesday.

In any case, there will certainly be a lot of people watching, and this will be a pivotal week for the company.

CATEGORY

1. Investing

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Date

2025/09/28

Date Created

2015/12/14

Author

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