



Valeant Pharmaceuticals Intl Inc.: The Good News and the Bad News

Description

Earlier this week I said that this will be a make-or-break week for **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). The drug maker is hosting its investor day on Wednesday, and investors are looking for more clarity on how the company will move on from its recent controversies.

The week is still far from over; as of this writing, the investor day is still ongoing. But we can already report some big positives as well as some negatives from this week.

The positives: moving on from Philidor

Valeant's shares surged on Tuesday when it announced a new 20-year distribution agreement with **Walgreens Boots Alliance Inc.** ([NASDAQ:WBA](#)). Under the agreement, Walgreens will sell Valeant's signature skin and eye drugs at discounted prices and will sell 30+ other Valeant-branded drugs. Walgreens will also implement Valeant's infamous copay assistance programs, in which insured patients can get their copays greatly reduced or waived altogether.

Of course, this arrangement means Valeant will have to sacrifice margins. But the company plans to make up the difference with increased volume.

On Wednesday, we got a greater idea of what this means for the company. Valeant is expecting profits to grow by 30% in 2016, which is well ahead of what analysts were expecting. Its stock rose in response. If you believe the company's management, the whole controversy surrounding Philidor is behind it.

The negatives: something else is going on here

The news wasn't all good. Valeant significantly lowered its fourth-quarter projections. The company now expects revenue of US\$2.75 billion for the quarter, down from the earlier estimate of US\$3.35 billion.

Everyone expected Valeant to revise its fourth-quarter projections, because the split with Philidor means lost revenue. However, Valeant lowered fourth-quarter revenue by an additional US\$200 million

due to “pricing and volume-related changes.” As a result, the company is expecting full-year profit of only US\$10.23-10.33 per share. Analysts had been expecting a number above US\$11.

If this is just a small blip, then of course it’s immaterial. After all, we’re talking about a difference of less than US\$1 for a stock that now trades well above US\$100.

But as the saying goes, “where there’s smoke, there’s fire.” In other words, Valeant’s revenue reductions could be a sign of greater problems to come. It could be a sign that insurers and pharmacy benefit managers are catching on to Valeant’s various practices and are fighting back. Only time will tell.

CATEGORY

1. Investing

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