



Valeant Pharmaceuticals Intl Inc.: The Plan for 2016

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) interim CEO Howard Schiller gave his first public presentation Wednesday in San Francisco. We'll look at the three biggest takeaways and what they mean for Valeant going forward.

1. The Walgreens deal

Valeant announced a new 20-year distribution agreement with **Walgreens Boots Alliance Inc.** in December, which will see many of its products sold at discounted prices.

The first phase of the program, which consists of Valeant's dermatology products, will start on Friday. Addyi (better-known as the "female Viagra") and ophthalmology products will follow shortly thereafter. The final phase, which consists of the Valeant drugs most exposed to generic competition, will begin in the middle of this year.

Interestingly, the Walgreens partnership will help Valeant break even this year. And while the program should become more profitable down the road, it does mark a significant shift for Valeant from years past.

2. Scaling back

Even before Wednesday Valeant had committed to shifting its strategy. Gone are the days of big acquisitions, big increases in debt, and dramatic price increases. Instead Valeant will devote the lion's share of free cash flow—roughly US\$2.25 billion—towards paying down debt.

And on Wednesday we even heard that Valeant may sell some assets. This would be a remarkable shift from Valeant's strategy just a year ago.

It should also raise some concerns. Remember, the main argument from Valeant bears (before the current controversies surfaced) was that the company is a *rollup*. In other words, Valeant relies on acquisitions to cover up its fundamental problems. So once these acquisitions stop, we'll see Valeant for what it really is.

Valeant investors better hope these bears are wrong.

3. No new updates

Valeant was facing a number of issues at the end of last year. Tops among them is what exactly happened at Philidor. There is also the big question about Michael Pearson's health. And of course there are a litany of outside investigations into the company's practices. Valeant provided no new updates on any of these matters, which is certainly a disappointment.

On the bright side, the company did reaffirm its guidance for this year. Those numbers were deemed very positive when originally announced, so we'll have to wait and see if Valeant can meet them.

Without a doubt, this is a "put up or shut up" year for Valeant. So the stock will likely move very sharply as the year progresses. We'll just have to wait and see which direction it will go.

CATEGORY

1. Investing

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bensinclair

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