



More Bad News for Valeant Pharmaceuticals Intl Inc.

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) interim CEO Howard Schiller will be testifying in front of a U.S. congressional panel next week. The focus of his testimony will be the severe price hikes on two drugs, Isuprel and Nitropress.

So what exactly does this mean for Valeant and its shareholders?

The drugs in question

Valeant acquired Isuprel and Nitropress, both of which are used to treat heart attacks, in February of last year. Then it immediately hiked the price of the drugs by 212% and 525% respectively, according to *The Wall Street Journal*. At the time, a Valeant spokeswoman stated bluntly that the company's goal was to "maximize the value" of every drug to the company's shareholders.

Politics are working against Valeant

Congress was not amused and requested information from Valeant about the revenue, costs, and expenses for these drugs.

Things got a whole lot worse in September when biotech entrepreneur Martin Shkreli acquired the rights to Daraprim (a drug used to treat toxoplasmosis, a life-threatening parasitic infection) and then raised the drug's price by 5,000%. Mr. Shkreli's actions angered a lot of people and even drew a quick response from Hillary Clinton. All of a sudden, the spotlight was squarely on drug-price increases, and Valeant was caught up in the mix.

To put it bluntly, Mr. Shkreli has effectively poisoned the well for Valeant. Even PhRMA, which lobbies on behalf of pharmaceutical companies, has felt compelled to distance itself from the two. So it cannot be good news that Mr. Shkreli will also be testifying at the same hearing.

Granted, you can never count on Washington politicians to accomplish anything. So there's a chance that all of this fury won't lead to any new legislation. But polls have shown that this is a bipartisan issue—some even suggest that Republicans want regulations on drug prices as much as they want

Obamacare repealed. Furthermore, one study showed that drug prices come under pressure when the issue is being debated by politicians.

Drug regulation could have a profound impact on Valeant. According to an analysis performed last year, Valeant would lose over US\$300 million per year if Isuprel and Nitropress prices reverted back to 2014 levels. And neither were even among Valeant's top six drugs.

Bigger issues down the line

Unfortunately for Valeant, new legislation is the least of its worries.

Remember, the company has faced criticism for its serial acquisitions, steep drug-price hikes, and its relationship with captive pharmacies. Even if there's no new legislation, none of those tactics will be employed this year. And we'll get to see Valeant for what it's really worth.

So if you think this stock looks cheap, you should tread very carefully and at least wait until next week is over.

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bensinclair

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