



3 Reasons Valeant Pharmaceuticals Intl Inc. Is in for a Rough Ride on Thursday

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) interim CEO Howard Schiller is set to testify before a U.S. Congressional panel on Thursday, and he is in for a rough ride. We look at three reasons why below.

1. A focus on drug-price increases

On Tuesday Congressman Elijah Cummings released a memorandum containing excerpts from more than 75,000 pages of documents from Valeant. In this memorandum, Mr. Cummings draws a number of conclusions.

First of all, he concludes that Valeant purchased the Isuprel and Nitropress drugs with the specific intention of raising their prices.

This alone is not a revelation. But the memo also claims that Valeant had an extensive public relations strategy to distract from price increases, which included an effort to “minimize media coverage of the pricing increase.” Valeant also focused extensively on its patient-assistance programs, which had the potential to close distribution channels, allowing for even more price increases.

Making matters worse, congressmen don’t tend to be sympathetic when hated executives testify. So with these documents released, you shouldn’t expect any lawmakers to hold back.

2. In bad company

Accompanying Valeant will be Martin Shkreli, the former CEO of Turing Pharmaceuticals. For those of you who are unfamiliar with Mr. Shkreli and Turing, the company purchased the life-saving drug Daraprim and jacked up the price by more than 5,000%. In the aftermath Mr. Shkreli has been called “the most-hated CEO in America” and has become the poster child for the steep cost of drugs.

And unfortunately for Valeant, the company is often associated with Turing. For instance, PhRMA—the pharmaceutical industry’s chief advocacy group—recently compared the two companies and essentially threw them both under the bus.

If that wasn’t bad enough, Mr. Shkreli plans to refuse to answer any questions, citing his Fifth Amendment rights against self-incrimination. So that leaves Valeant all alone to answer every question.

3. A bipartisan issue

In the past we’ve seen such hearings turn into highly partisan affairs. But in recent polls, even the Republicans have shown outrage over drug-price increases and are demanding that Congress act.

So with election season coming up, lawmakers will want to show toughness in front of Mr. Schiller. To put it mildly, it could get ugly.

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bensinclair

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