



Valeant Pharmaceuticals Intl Inc. Is Under Scrutiny From the SEC

Description

To say that Monday was chaotic for **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) would be a massive understatement.

The mayhem started early in the morning in the wake of Valeant's decision to delay its fourth-quarter earnings announcement and pull its 2016 guidance. The company's U.S.-listed shares opened at US\$76.52, down 5.1% from the previous close, and continued to trade down from there.

Then later in the morning, Valeant IR vice president Laurie Little emailed a group of sell-side analysts that cover the company, scheduling a call for later in the day. Ms. Little also said not to forward the email to anyone. But when *Bloomberg* got wind of the call, Ms. Little denied that any call was taking place. She then canceled the call an hour later.

If that wasn't enough, Moody's Investor Service put Valeant's debt under review for a potential downgrade, citing "concerns that Valeant's underlying operating performance is weaker than Moody's previous expectations, potentially impeding the company's deleveraging plans." This could be a major issue, mainly because the company has over US\$30 billion of debt.

But the bad news didn't stop there. In the afternoon, Valeant confirmed it was under investigation from the Securities and Exchange Commission (SEC). And this latest piece of news sent Valeant's shares down further—the stock closed at US\$65.80 on Monday, down by more than 18%.

[In a previous article](#), I looked at Valeant's earlier issues. So as a follow up, I'll take a look at what implications the SEC investigation could have.

Unknown unknowns

Valeant received notice of the SEC's investigation back in the fourth quarter of 2015, but didn't disclose it at the time. Fast forward to February 23, and a small outfit called Probes Research said that "new SEC data" was pointing to a possible investigation of Valeant. Then five days later, Probes confirmed that the SEC had launched an investigation. Of course, the press then started asking Valeant questions, and that is why the company acknowledged the investigation on Monday.

Unfortunately, we don't yet know what the investigation is about. But *The Wall Street Journal* has reported that it concerns Valeant's now-terminated relationship with Philidor Rx Services LLC.

If this is true, there is a tremendous amount of downside for Valeant's stock. The key will be determining just how involved Valeant was in Philidor's operations and whether or not the company should be held liable for Philidor's misdeeds. If Valeant is indeed found to be liable, then that could be a catastrophe for shareholders.

Of course, this all remains very speculative. But this is a company facing a number of different investigations, and the news will likely get worse before it gets better. Now is not a good time to buy shares.

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