



## Why Are Valeant Pharmaceuticals Intl Inc. Shares Surging?

### Description

On Monday morning, the U.S.-listed shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) opened at US\$63.30, approximately 3.2% higher than their previous closing price. And throughout the morning the shares continued to climb. At one point, the shares were up by more than 10% on the day.

So why have the shares done so well?

#### A new conference call

Throughout the beginning of this year, Valeant was silent on when it would announce its fourth-quarter results, and that was weighing down on the company's share price. Then on February 22, Valeant scheduled a conference call for February 29 to announce these results. Investors breathed a sigh of relief, and the company's shares rose by 4.4% the next day.

But then on Sunday, the 28, Valeant canceled its fourth-quarter call, and the company's shares opened trading the next morning down 5% (a flurry of other developments sent the shares down a lot further). Analysts were divided on when Valeant would release its fourth-quarter results; some are suggesting that it could be a matter of months.

Yet on Monday morning Valeant announced that its fourth-quarter results will be announced on March 15. This brings some much-needed visibility to Valeant's future (but not much).

#### Some wild swings

Valeant's share-price movement still seems quite extreme, even though the conference call announcement is a positive development. So what exactly is going on here?

Well, to answer this question, let's look at what activist investor Bill Ackman of Pershing Square has done. Mr. Ackman is a big believer in Valeant and has been buying more shares as the company's stock price has slid. According to the most recent filings, his fund holds more than 20 million shares of Valeant.

Mr. Ackman has repeatedly said he would buy even more shares of Valeant, if only he had the cash to spare. But he found a solution: he bought call options.

To help fund this purchase, he also sold some put options. These puts have a strike price of US\$60 and expire in January 2017. This means that if Valeant's shares fall below US\$60 before that time, then Mr. Ackman's fund would be facing some very significant losses and could even be forced to unwind its position. Of course, such speculation is weighing further on Valeant's shares.

Do you see where this is going? Whenever there is any positive news surrounding Valeant, it becomes less likely that Mr. Ackman will be forced to exit his position. It also increases the possibility of a short squeeze on those who are betting against the stock. This has a compounding effect on the share price.

Of course, this dynamic works the other way, too. Whenever Valeant reveals bad news, it could fuel speculation about Mr. Ackman's position. On top of that, you would see even more selling from stop-loss orders and tax-loss harvesting. So if Valeant reveals any bad news on the 15th, watch out. The shares could drop like a rock.

## CATEGORY

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1. Editor's Choice

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