



Valeant Pharmaceuticals Intl Inc.: 3 Things to Look for as it Reports 4th-Quarter Numbers

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is set to report its fourth-quarter results on Tuesday morning. The event has been widely anticipated, partly because it has been delayed twice already.

We'll look at three key aspects of the call below.

1. A Philidor update

On February 22, Valeant announced that its ad hoc committee had made “substantial progress in its review of Philidor and related accounting matters.” According to the press release, Valeant had improperly recognized US\$58 million of revenue in the second half of 2014.

Surprisingly, investors shrugged off the news. But as Valeant releases fourth-quarter results, we'll all be expecting more updates from the ad hoc committee.

After all, we still don't know for sure if there were other accounting issues surrounding Philidor. We still don't know exactly how involved Valeant was in Philidor's operations. And we're not sure exactly how the SEC's investigation—which apparently focuses on Valeant's Philidor relationship—will play out. We don't even know the timeline of the ad hoc committee's investigation. Any updates would be more than welcome.

2. Guidance for 2016

On February 28, Valeant announced that Michael Pearson would be returning to his post as CEO, which most analysts would say is good news. However, the company also pulled its 2016 guidance, which set off some serious alarm bells in the analyst community.

Making matters worse, Valeant has sent mixed messages about the importance of drug pricing to its bottom line. Back in April, CEO Michael Pearson said that “volume was greater than price in terms of our growth.” But an internal email from Howard Schiller, Valeant's CFO at the time, said that price

represented about 80% of the company's growth. We have since seen the company admit publicly that price has been more of a factor.

The price vs. volume dynamic is critical because Valeant is under intense scrutiny over its drug pricing practices. So even if there is no new drug pricing legislation, you should expect to see a brake on price hikes. We'll see what impact that has on 2016 guidance.

3. Debt reduction and a new strategy

Thanks to its acquisitive history, Valeant has roughly US\$31 billion in debt and had plans to cut it by US\$2.3 billion. But with guidance suspended, the debt level becomes that much more of a concern.

To help illustrate this point, **Moody's Investors Service** cut Valeant's debt rating the same day that the company's guidance was withdrawn. And analyst David Maris of **Wells Fargo** has claimed that Valeant's debt load will consume all the company's discretionary cash flow for the foreseeable future.

So we'll have to see what kind of debt-reduction goals Valeant has in the upcoming year and how it plans to achieve its target. Asset sales could easily be part of the mix.

One way or another, investors are in for a wild ride.

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