



Why My Price Target for Valeant Pharmaceuticals Intl Inc. Is \$0

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) reported unaudited results for the fourth quarter of 2015, and they were ugly to say the least. We'll take a closer look at the numbers and also look at why the stock shouldn't be bought at any price.

Very disappointing numbers

If there was any good news, it's that Valeant generated US\$2.8 billion during the fourth quarter. Otherwise, there is nothing positive to report.

Valeant's Q4 earnings per share (EPS) came in at US\$2.50, which was US\$0.11 below consensus estimates. But the real bad news came when the company gave its updated guidance. For the year 2016, Valeant expects revenue between US\$11 billion and US\$11.2 billion, down from prior guidance of US\$12.5-12.7 billion. EPS is expected to come in at US\$9.50-10.50, again, down from prior guidance, which was US\$13.25-13.75.

Even more worryingly, Valeant forecasted US\$6.2-6.6 billion in adjusted EBITDA in the 12 months following March 31, but then lowered that estimate to US\$6 billion during the earnings call. Management blamed the error on a "typo," but it's another sign that they don't have a handle on their own business.

More trouble from here

Ever since Valeant's relationship with Philidor was exposed, the company has found itself under increased scrutiny, and that seems to have affected the rest of its business. In the press release, Valeant noted that business slowed in a number of areas, even ones that weren't a big part of Philidor. For example, Valeant's gastrointestinal business experienced softer-than-expected sales in the fourth quarter.

This scrutiny will only grow more intense. Politicians are angry about Valeant's high drug prices. Investigations from the SEC and other public bodies are ongoing. And we *still* haven't gotten to the bottom of what was going on at Philidor.

A default could be looming

Valeant's biggest problem now is its balance sheet. The company has over US\$30 billion of debt on its books and has plans to pay down US\$1.7 billion this year. But the efforts may not be enough.

If Valeant does not submit its annual report by Thursday, it will breach the covenants on its bonds, paving the way for a default. From there, the company will have a 60-day window to make the proper filings and avoid defaulting.

Here's the problem though: after the latest numbers came in lower than expected, Valeant may have already breached one of its debt covenants. And that may be why the company has yet to release audited results. To be fair, that is just speculation at this point. But Valeant has also said it intends to enter into negotiations with its creditors regarding covenants.

This is why Valeant's shares could easily reach \$0, and I wouldn't recommend buying the shares at any price. Put another way, this story is nowhere near over.

CATEGORY

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bensinclair

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