



Can Valeant Pharmaceuticals Intl Inc. Dig Itself out of its Financial Hole?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is facing a lot of problems right now, but the biggest one revolves around its balance sheet. The company has roughly US\$31 billion of debt as of December 31, according to unaudited figures, nearly three times its market value.

In fact, Valeant is in severe danger of defaulting on this debt, which is part of the reason why its shares fell so far on Monday. We'll take a closer look and examine what the company must do to dig itself out of this hole.

A delay in reporting

In its press release on Monday, Valeant claimed that it could not release audited financial statements due to the ongoing investigation of Philidor. But this delay poses a big problem for the company.

Valeant's bond indentures required the company to file its 10K form (which must include audited financials) by March 16, and since that wasn't done, a notice of default can now be submitted. In that case, Valeant will have 60 days to then submit its 10K, otherwise the company will have to default on its debt.

Likewise, Valeant's credit agreement requires a 10K by the end of the month in order to avoid a notice of default. Then once a notice is given, Valeant would have 30 days to comply.

These deadlines may be too tight for the company. During the conference call, CEO Michael Pearson said that it is negotiating with lenders to extend these deadlines.

Other issues

If we are to believe Valeant, then it is just a coincidence that it failed to file its 10K *at the same time* that it lowered its guidance. For the more cynically minded, these two things have something to do with each other. To make us even more suspicious, Valeant did not release an unaudited balance sheet. And let's not forget this is a company with a very secretive history.

There are a few things that could be going on here (just to be clear, all we can do is speculate at this point). First of all, Valeant may have to incur some big asset impairments, especially now that its pricing practices are under such scrutiny. Even more worryingly, the company may be in breach of a financial covenant.

Mr. Pearson said he expects Valeant to be in compliance with all its financial covenants this year and next, but without audited financial statements, it's difficult to say for sure.

What must be done

What's become clear is that Valeant needs to sell assets to shore up its balance sheet. Yet there are serious doubts about whether or not this will be enough. One veteran healthcare analyst even told *The New York Times* that he's not sure the businesses are worth more than the debt load.

Of course, if Valeant has to write down some assets, then selling them off may be even more challenging. And if the company needs to sell assets to comply with financial covenants, then this must be done before the 10K is filed. Again, this is very speculative, but it's something you need to consider before buying shares of the company.

Put simply, this is a stock you should stay very far away from.

CATEGORY

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Date

2025/06/30

Date Created

2016/03/18

Author

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