



Valeant Pharmaceuticals Intl Inc. Is at the Mercy of its Lenders

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) is in danger of defaulting on its debt, which would be yet another catastrophe for shareholders. To save itself from that fate, it is currently negotiating with its lenders to ease covenants.

But this has consequences too, as has been demonstrated by a number of oil companies. **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) is one example. We'll take a closer look below.

Valeant's covenants

According to Valeant's credit agreement, a default will occur if Valeant doesn't file its 10-K (which includes audited financial statements) by the end of this month. In that scenario, Valeant will then have 30 days to cure the default by filing its 10-K.

Meanwhile, Valeant has already breached the reporting covenant in its bond indentures, which required a 10-K by March 16. As a result, the company is restricted from borrowing any more money from its revolver.

These aren't the only covenants Valeant must adhere to; there are also certain financial targets that the company must maintain. The company said it expects to be in compliance with all covenants this year and next, but until the company releases audited financials, it's impossible to know for sure.

Penn West's experience

At the beginning of last year Penn West was about to breach its debt covenants, which would have meant a default. To avoid such a fate, the company got lenders to relax covenants. And even though an agreement was reached, it was not a fun process.

For starters, Penn West had to lower its quarterly dividend from \$0.03 to \$0.01. The company also had to cancel a \$500 million tranche in its bank facility. It also had to grant floating charge security over all its property. If that wasn't bad enough, Penn West had to pledge that any asset sales would go towards reducing debt. To top it all off, the company had to agree to higher interest payments.

Anything can happen

This situation with Valeant is a little different, because Valeant hasn't even released audited financials, making the outcome very unpredictable. Otherwise, Penn West's experience provides a useful learning experience.

And anonymous sources have already told *Reuters* that "creditors prepare to slam company with tougher demands" in exchange for relaxing covenants. So one way or another, Valeant is in for a rough ride. This story is far from over.

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bensinclair

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