



## Why Valeant Pharmaceuticals Intl Inc. Shares Surged as Much as 17% on Monday

### Description

On March 21, there were more developments in the **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) saga.

Most notably, the company announced that CEO Michael Pearson will be stepping down as soon as a successor is found. In addition, activist investor Bill Ackman, head of Pershing Square Capital Management, has now joined the board of directors. And to top it all off, Valeant blamed its past financial misstatements on former CFO Howard Schiller and asked him to resign from the board of directors. Yet he has refused to do so.

While these developments may look like signs of chaos, investors reacted warmly to the news, sending Valeant's shares up by as much as 17%. So why exactly did Valeant's shares increase, and what does this news mean for the company in the long term?

### Michael Pearson's departure

Michael Pearson has been the face of Valeant's rise as well as its fall. It was he who moved the company from the United States to Canada primarily for tax reasons. It was he who slashed Valeant's R&D spending in favour of an acquisition-based model. And as the company finds itself in a downward spiral, he is at the centre of it all.

Up until March he was still held in very high regard. When the Philidor story dominated headlines, Mr. Ackman reiterated his support for Mr. Pearson. Then when Mr. Pearson had to step down at the end of 2015 (for health-related reasons), Valeant's share price fell. More recently, Nomura Securities analyst Shibani Malhotra said Valeant would lose its competitive advantage if Mr. Pearson stepped down.

But that all changed when Valeant lowered its 2016 guidance on March 14. Now there's a sense that the company has no idea what it's doing, which, of course, reflects badly on the CEO. So it's no surprise that his departure is being received well.

## Bill Ackman's presence

Not unlike Mr. Pearson, Bill Ackman is another public figure whose reputation has taken a dramatic turn for the worse.

Long known as one of Wall Street's best activist investors, Mr. Ackman has had some remarkable successes; for example, he initiated the turnaround at **Canadian Pacific Railway Limited**, which has been a tremendous win for shareholders of that company.

But more recently, the story has been very different. When Valeant started running into trouble, he increased his stake, saying his biggest regret was that he wasn't in a position to buy more shares. He also said that the company's biggest problem was poor communication. During a conference call, he even predicted that Valeant's shares would reach US\$448 by 2019.

Yet Mr. Ackman still is held in high regard, so his decision to join the board may be viewed as a small positive.

## Howard Schiller

It may seem unfair that Mr. Schiller is being made the scapegoat, since he stepped in as interim-CEO during a very difficult time. Then again, he was CFO at a time when the company misstated its financials.

In any case, this controversy is really more of a side story. Mr. Pearson's departure was certainly the main reason Valeant's share price increased, and Mr. Ackman's increased involvement was likely a factor as well. We'll have to wait and see how this all plays out.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
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