



Valeant Pharmaceuticals Intl Inc.: Jim Chanos and the Original Short Thesis

Description

Jim Chanos has long been one of Wall Street's best skeptics; he's best known for betting against Enron before the company's collapse. And Mr. Chanos was also betting against **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) back when the company was widely admired. Oddly enough, many of Valeant's current problems were unforeseen by Mr. Chanos (or anyone else for that matter).

So why exactly did Mr. Chanos bet against Valeant? And what does it mean for the stock today?

A "roll-up"

Interestingly, Mr. Chanos did not bet against Enron because he uncovered a fraud. Rather, he said he didn't think Enron was a good business. Likewise, Mr. Chanos did not bet against Valeant because he unearthed fraudulent activity at Philidor. In fact, he was short before Valeant was even consolidating Philidor.

Mr. Chanos was shorting Valeant because he saw the company as a roll-up, a term used to describe companies that rely on acquisitions to grow. He explained his reasoning in an interview with *CNBC* back in May 2014:

We're short because it's a roll-up and roll-ups present a unique set of problems. Roll-ups are generally accounting-driven, and we certainly think that's the case in Valeant. We think that Valeant is playing some very aggressive accounting games when they buy companies, write down the assets.

Mr. Chanos also claimed during the interview that Valeant needed acquisitions to cover up poor fundamentals.

For quite a while, he had to eat his words. Valeant shares were trading for about US\$123 during that interview, and over 15 months, they surged by more than 100%. But he stuck to his guns and has been rewarded handsomely for it.

What does this mean for Valeant today?

Valeant has a lot of pressing concerns. The company has not filed audited financial statements for 2015. There is a mountain of debt. The Philidor scandal is still ongoing. Regulators and lawmakers are investigating the company.

And because of Valeant's weakened state, the company will not be doing any major acquisitions. There may even be some divestitures in the works. This brings me back to Mr. Chanos's thesis. If he was right, then the true Valeant—one with very weak fundamentals—will be on full display now that acquisitions cannot be used to cover up the mess.

Even if Mr. Chanos is half-right, then Valeant shareholders are due for a lot more pain. I am glad not to be one of those people.

CATEGORY

1. Investing

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