



Valeant Pharmaceuticals Intl Inc.: What Michael Pearson's Testimony Means for the Company

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) shares plunged by 7% on Monday after a Senate committee subpoenaed outgoing CEO Michael Pearson.

So what exactly is in store for Mr. Pearson, and why did investors react so negatively?

What Mr. Pearson can expect

Valeant is fighting a multifront battle nowadays. The company is facing questions regarding its financial health, its business model, Philidor, investigations from regulators, corporate governance, and its financial reporting. But Congress only cares about one thing: Valeant's history of steep drug-price increases.

In a sense, this is good news for Mr. Pearson. He won't have to answer any questions that he is not ready to answer. But here's the bad news: politicians are furious with Valeant's drug-pricing practices, especially regarding Isuprel and Nitropress, two heart medications the company acquired in 2015. Valeant raised these drugs' prices by 525% and 212%, respectively.

And the politicians aren't alone. Polls have shown the American public is fed up with the rising cost of drugs. Republican voters want action on this issue just as much as they want Obamacare repealed. Even PhRMA, the chief pharmaceutical lobby, isn't standing by Valeant; instead, it's comparing the company to the much-maligned Turing Pharmaceuticals.

So Mr. Pearson can expect some harsh treatment at the hearing, which takes place on April 27.

Why the shares reacted negatively

We all know how Washington works. Politicians love to grandstand in front of TV cameras, but when it comes to passing meaningful policies, they are much more hesitant. So there's reason to believe Mr. Pearson's testimony won't be meaningful in the long run.

But there are legitimate reasons to be worried. First of all, Mr. Pearson is not known to be a strong public speaker.

Secondly, research has shown that when drug prices are under public scrutiny, drug-price increases tend to slow dramatically. So the longer that Valeant is made out to be the villain, the more impact it will have on its business model.

And to top it all off, Valeant's financial condition is so poor that short-term factors matter that much more. Put another way, by the time the dust settles on this issue, Valeant could even be bankrupt. This is something you need to think about before buying the stock.

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