



Good News for Valeant Pharmaceuticals Intl Inc.

Description

According to the *Financial Post*, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) is in talks to hire Perrigo Co.'s CEO Joseph Papa to replace outgoing CEO Mike Pearson. Perrigo is an American international manufacturer of private label over-the-counter pharmaceuticals. Valeant stock was up 7% on the news. The move would represent yet another management shuffle at Valeant after it added activist investor Bill Ackman to its board last month.

After falling over 80% in the past year, is Valeant finally turning things around?

Still plenty of headwinds

Bill Ackman characterizes Valeant's open CEO position as "extremely attractive," but whoever ends up taking the job has a difficult road ahead.

First, Valeant's drug-pricing practices are under investigation by multiple U.S. agencies. The issue stems from possible predatory pricing schemes. For instance, after acquiring two cardiovascular products last year, the company reset their prices by more 200-500% despite making no formulaic changes.

A report by Citron Research showed possible misconduct, alleging that Valeant manipulated specialty pharmacies to artificially boost demand for its drugs, leading to higher prices. Citron even went as far to call Valeant "the pharmaceutical Enron." CEO Michael Pearson is preparing to step down and has been subpoenaed to testify before a U.S. Senate committee.

The second issue is more immediate in nature.

Even after restating its financial results from 2014 to 2015, Valeant was unable to file its annual report on time. Following the approval of an extension request, the company now has until May 31. That hasn't stopped many bondholders from becoming disgruntled.

Centerbridge Partners LP, a \$25 billion private equity and distressed debt investor, recently sent Valeant a notice of default. If the company can't manage to file its annual report on time again, it could

trigger a technical default on its \$31 billion in debt.

Getting paid for risk

“The stock effectively trades at below three times earnings,” Bill Ackman recently said, calling it a “remarkably low valuation” for a business of this quality. For the market to boost Valeant’s valuation, the company first needs to replace its CEO and issue its complete annual report. If it can hire Joseph Papa as CEO, it would be halfway there.

“[The] interesting thing is it’s much easier to restore confidence by making those kinds of changes. And we expect fairly rapid recover in the stock price on the basis of restoring confidence in the business,” said Ackman.

The company also reaffirmed its commitment to release its annual report by April 29, so things could clear up fairly soon. However, Valeant’s pending investigations should take a bit more time. Even with some operating changes, regulatory uncertainty may keep a lid on shares for some time.

Long term, Valeant looks like a binary investment. At best, its valuation resets to historical norms, implying shares have +200% upside. At worst, it could end in the collapse of the entire company (think Enron).

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/02

Date Created

2016/04/25

Author

rvanzo

default watermark