



## Valeant Pharmaceuticals Intl Inc. Cleans Shop. Is it a Buy Now?

### Description

On Wednesday, outgoing CEO Michael Pearson and one of the largest investors, Bill Ackman, testified before the Senate in connection to **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) raising the prices of drugs, in some cases 500-1,000%.

During the testimony, Ackman revealed that new Valeant CEO, Joseph Papa, will begin working on Monday and receive the majority of his compensation based on stock-price recovery.

Papa is leaving **Perrigo Company plc**, a manufacturer of private label over-the-counter drugs. Along with Papa's arrival, five directors will be stepping down by the end of the week with four new ones replacing them. According to the *Wall Street Journal*, these new board members will come from traditional pharmaceutical firms to help Valeant push forward.

But as investors, is this an opportunity to start buying shares in a company that were trading at over \$300 a share less than a year ago?

At this point, I still don't feel comfortable investing in Valeant for a few reasons. The first has to do with its debt. It is sitting on \$30 billion in owed money because of its strategy of acquiring other pharmaceutical companies at a rapid pace. But debt alone is not a problem if the creditors are amenable to a rebuild. Pennies on the dollar never make lenders happy, so if there's a path forward, I imagine they'll take it.

But the real problem is that it has yet to release its annual report. Without that, it could default on its loans, and that would seriously hurt its ability to pay back its loans. Valeant has promised to have this documentation by April 29. For me, this is the real catalyst.

If Valeant can get its annual report out and begin operating like a legitimate business, it could have a future. While we look at how beaten down the company is, it's important to remember that behind that \$30 billion in debt, there really are a lot of great drugs. It owns Bausch & Lomb, which is a booming business. It owns Xifaxan, a gastrointestinal drug with estimated future sales of \$1 billion a year. Other products are Obagi and Solta, which are aesthetics products. And there's CeraVe, a skincare product.

The reality is that Valeant owns a lot of really great assets, so if the company can deliver on its report and then start getting aggressive with paying down its debt, there could be a serious opportunity for investors. How much of that debt could be wiped off if Bausch & Lomb were sold? Some analysts have suggested upwards of 66% of the debt would be gone.

My recommendation for a company like Valeant is patience. While it is true that investors could see 200-400% increases, especially if it returns to its all-time highs, Valeant could also burn up. And when a company like Valeant goes away, common stock shareholders are considered last in the pecking order of asset distribution. Lenders come first.

Therefore, I would advise investors to keep this stock in their “research” column, keep track of it, but wait until the company starts to show some seriously good news. If it sells a product, gets its report out, or demonstrates a plan to get its debt under control, I’d suggest buying. Until then, I don’t view the risk/reward ratio being all that impressive yet.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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