Can Valeant Pharmaceuticals Intl Inc. Recover?

Description

The troubles seem to have no end for **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX).

The embattled drug manufacturer announced this week an updated profit forecast for 2016. The company now expects to earn US$6.60-7.00 per share, excluding some items. The previous forecast for the company provided back in March called for a range of US$8.50-9.50 with analysts forecasting earnings of just US$8.49.

As a result, the stock price dropped further, closing down nearly 15% at $31.47. Over the past 12 months Valeant has dropped 90% since peaking last summer at over $345 per share.

What happened to Valeant?

Nearly a year ago Valeant was the darling of the market with the highest market cap of any company on the exchange, thanks in part its lucrative business model.

Valeant's business model consisted of acquiring undervalued companies using funds from cheap loans. Once in control, the drugs from the new acquisition would be bumped up in price and added to Valeant's distribution network.

This model allowed Valeant to grow at an incredible pace, but prices could only be pushed up so far, and the company could only take on so much debt. Eventually, the pricing increases caught the attention of both politicians and regulatory authorities, and a mounting debt load forced a change in policy as well as management.

Earlier this year the company delayed releasing financial results while an internal review was ongoing, which resulted in earnings restatements and ultimately default notices from bondholders, sending the stock even lower. Financial statements for the first quarter are expected to be filed this week with the SEC, well ahead of the deadline for the quarter.

What are the next steps for Valeant?

The company has undertaken a number of difficult decisions with more likely within the next few weeks. New CEO Joseph Papa met with investors last month, shedding light on the challenges the company will face moving forward.

Valeant's US$30 billion of debt remains the primary focus of the company. The company recently announced that US$1.5 billion will be the debt-reduction target for the year; the reduction in debt will be funded through the sale of some non-core assets. Valeant has assets that are worth billions; some core assets, such as the Bausch & Lomb brand, are arguably worth more than the current market cap of the entire company.

A sale of some non-core assets will more than likely meet the debt-reduction target, but the company will need to do more to address the pricing of some of the drugs. To that end, one of the first things that Papa did when taking over was form a committee that was tasked with looking at drug prices.

Valeant has already forged several new deals, specifically with **Walgreens Boots Alliance**, and Valeant is also working on new discount programs for some heart medications as well as other drugs that caught the attention of lawmakers.

In my opinion, Valeant remains an incredibly risky investment at the moment. An emphasis on debt reduction and movement on fixing the pricing issues are a step in the right direction, but until results can be shown or debt-reduction targets are met, investors would be better suited opting for any number of other stocks.

CATEGORY

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