How Valeant Pharmaceuticals Intl Inc. Could Become a Great Investment

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) continues to drop to new lows. The former darling of the market has seen the stock price plummet over 90% from nearly $350 to a low of just under $26 over the past year.

While the events that led to the epic collapse of the stock have, for the most part, passed, the company has been struggling to revamp an ailing business model and pay down burgeoning debt. Despite all of this, there is some hope for the stock's resurgence and for any existing investors who are still holding on to company stock.

Here's a look at a few reasons that investors may want to take a second look at Valeant.

Valeant's business has changed

Valeant's now infamous business model consisted of taking out cheap loans and using those funds to buy out other drug companies that were either on the verge of announcing a new lucrative product or had a line of well-established drugs that could benefit from Valeant's extensive distributor network. In both cases, the company would push up the price of those drugs, which allowed the company to take out additional loans and purchase more soon-to-market drugs.

The problem with that model is that the loans kept adding up, and eventually Valeant was stuck with $30 billion in debt. And those rising prices came under scrutiny from a bevy of groups, including U.S. Congress.

So what did Valeant do? To start, Valeant's new CEO, Joseph Papa came forward and said the company has made mistakes, and that it plans to do better. This is an attempt to begin to make things right and return the company to profitability.

Papa has stated that the company’s current slide could be reversed and return to growth within thenext six months. Part of this return to growth stems on the company focusing more in the short term on reducing debt rather than seeking out new business deals. Beyond belt-tightening, Valeant has been actively working on a number of new partnerships and deals.

Debt reduction and new deals

Valeant has set a debt-reduction target of $1.7 billion for this year and mentioned that the sale of assets is a likely way to raise the necessary funds.

The company has so far resisted the urge to put a “for sale” sign on what it deems core assets. These include the Bausch & Lomb brand, which is arguably worth more than the current market cap of the stock.

Earlier this month Valeant announced that it is terminating an agreement from last summer made with AstraZeneca with respect to the Brodalumab drug that is used in treating moderate to severe plaque psoriasis. While Valeant will retain the license to develop and sell the drug within the U.S., the license in Europe will be terminated. In exchange, Valeant stands to receive both upfront and milestone payments relating to the deal.

Additionally, Spanish drug maker Almirall has expressed interested in Valeant’s portfolio of dermatology assets. A sale of some of these assets could bring in significant revenues for the company that could drive debt down even further.

The actions that Valeant has made in the past few months are nothing short of impressive and will go a long way to restoring some confidence and reducing the massive debt. The company is doing the right things, but there is no quick and easy way out of the mess that Valeant is in at the moment. What is needed is time. The best thing for existing shareholders to do is take a wait-and-see approach or even buy in some more if you can take the risk.

Investors who can handle the extreme risk that Valeant currently poses may be handsomely rewarded when the stock finally starts to appreciate again, but it may be too risky for most, at least for the time being.

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