



## What Can Investors Expect From Valeant Pharmaceuticals Intl Inc.?

### Description

**Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) continues to confound investors, leaving them confused as to whether they should start buying shares, sell their positions, or just not think about it. Between talk about defaulting on debt, investors selling their shares, partnership problems, and new products launching, not knowing what to do can be quite unsettling.

Here's what investors can expect from Valeant.

First, on the topic on debt, there's no denying that Valeant is sitting on \$30 billion in debt. In its quest to become one of the largest pharmaceutical companies on the market, it levered itself up significantly. However, there are only two ways that a business has to shut down, and that's if management gives up or if it runs out of money. Fortunately, I don't see that happening anytime soon.

If we look at its 10Q for the first quarter, there are conflicting numbers. If we look at its GAAP EPS, it saw a loss of \$1.08 per share. Its non-GAAP adjusted earnings per share showed a positive \$1.27. But what leaves me somewhat confident is that it had GAAP cash flow from operations of \$558 million, up 14% year over year. So long as there is cash flow, Valeant should be able to make its debt payments.

Then there's the fact that Sequoia Fund, Valeant's second-largest shareholder, decided to get rid of its entire stake in the company. And Michael Pearson, the former CEO of Valeant, sold nearly US\$100 million in shares of Valeant. When big investors and insiders start selling, it can be concerning. However, what's important to pay attention to going forward is true insider acquisitions. If we see key employees buying shares, there's confidence in the company.

Noted in the 10Q, management had to slash its earnings guidance to somewhere between \$6.60 and \$7.00 per share. This is down quite significantly from the \$8.50-9.50 it had initially planned to make. One of the reasons is because of a distribution partnership it signed with **Walgreens**. During the call, CEO Joseph Papa said, "every time a prescription goes out the door [Walgreens's door], we're taping dollars bills to that prescription." Valeant is losing money on this distribution deal.

The reason is because prior to the company revealing that it was increasing the price of its drugs significantly, it was able to generate lucrative earnings even with this deal. However, now that it has

had to reduce prices, it can't sustain it. What Valeant intends to do with this deal is still up in the air, but it could depress earnings for some time.

The good news for investors is that Valeant is expecting to get FDA approval for a few new drugs.

First, there's Relistor oral, which treats opioid-induced constipation; Valeant expects to receive an answer in the next few days. Then there's Vesneo, which treats elevated intraocular pressure. And finally, the Dermatologic and Ophthalmic Drugs Advisory Committee is meeting today to discuss brodalumab for treatment of moderate to severe plaque psoriasis in adults. One analysts believes brodalumab could generate US\$400-500 million in peak U.S. sales if approved.

If this post leaves you scratching your head, that's basically the point. Valeant could very well become a success again, and Joe Papa is definitely the executive to lead that charge. However, there are many uncertainties around its debt, its partnerships, and whether or not insiders are actually interested in it. Because of this, my advice is to *avoid this stock*. Come back when things get a little clearer.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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