



Is Concordia International Corp. for You?

Description

In a year **Concordia International Corp** (TSX:CXR)(NASDAQ:CXRX) declined 78% from over \$100 to below \$23 per share today. At today's share price, the company trades at a forward multiple of 3.2. This is a ridiculously cheap multiple to pay for a company.

What is weighing down Concordia's shares?

First, let's get a sense of its business.

The business

Concordia has a diversified portfolio of branded and generic prescription products. It operates in three business segments, including Concordia International, Concordia North America, and Orphan Drugs.

The Concordia International segment is comprised of Amdipharm Mercury Limited (AMCo), which was acquired by Concordia in October 2015. It focuses on acquiring, licensing, and developing off-patent prescription medicines that are niche or hard-to-make products.

AMCo's diversified portfolio consists of branded and generic products, which it sells to wholesalers, hospitals, and pharmacies in more than 100 countries.

The Concordia North America segment focuses predominantly on the U.S. pharmaceutical market. Its North American portfolio consists of branded products and authorized generic contracts.

Products include Donnatal, which treats irritable bowel syndrome, Nilandron, which treats metastatic prostate cancer, Lanoxin, which treats mild to moderate heart failure and atrial fibrillation

Revenues and cash flow

In the first quarter that ended on March 31, Concordia earned revenues of US\$228.5 million; 61.2% came from the International segment, 37.6% came from the North America segment, and 1.2% came from the Orphan Drugs segment.

Revenue was 570% higher than the first quarter of 2015. However, it's not meaningful to compare the results of these quarters because the AMCo and Corvis acquisitions both occurred after March last year. Specifically, Concordia acquired Corvis and AMCo in April and October 2015, respectively.

That said, in the first quarter, Concordia generated strong operating cash flows of \$91.8 million, which covered the cash needed for its financing and investing activities with \$25.8 million of cash left over.

What's weighing down the shares?

Concordia took on a lot of debt to fund the Corvis and AMCo acquisitions. The combined transactions were worth \$4.31 billion. Its debt continues to weigh down its shares.

Compared with the end of 2015, in the first quarter Concordia's long-term debt was reduced from \$15.2 million by \$3,306 million partly due to some principal repayments and a weak U.K. pound against the U.S. dollar.

At the end of the first quarter Concordia's term loans (in U.S. dollar and U.K. pound) made up about 52% of its long-term debt. These term loans have variable interest rates and mature in October 2021. Concordia is required to make principal repayments every quarter.

Concordia also had 23% of its long-term debt in notes that bear a 9.5% interest and 21% that bear a 7% interest. The interest is payable semi-annually in June and December for the 9.5% notes and April and October for the 7% notes. No payment of principal is required until maturity in October 2022 and April 2023, respectively.

At the end of the first quarter, about 69% of Concordia's debt had a maturity date beyond five years.

Conclusion

Concordia is still absorbing its acquisitions. It will take Concordia more than a quarter or two (more like a year or two) to show it can generate the cash flow to reduce its debt (or not).

In the meantime, Concordia benefits from a weak pound against the U.S. dollar, but at the same time it's interest rate sensitive.

Investing in Concordia has been a roller-coaster ride so far this year. Due to the large amount of debt that will require time to repay, there's no rush to buy Concordia.

Investors should only consider Concordia as an investment if they have an above-average appetite for risk and intend to invest for at least five years. Even then, averaging into a position as the company reduces its debt levels will be a more prudent move than buying a big lump sum today.

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2. Investing

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1. Editor's Choice

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