



Has Valeant Pharmaceuticals Intl Inc. Hit the Bottom Yet?

Description

On this day last year **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) was flirting with a meteoric stock price of \$347 per share. Today the stock is trading just shy of \$30, signaling a 90% drop in value over the past year. Ouch.

Has the company has finally hit bottom? Can Valeant can return to profitability? Here's a look at the company and what investors should take note of.

Earnings season is approaching

Valeant is set to report earnings for the second quarter in just under a week. While nobody is really expecting the company to turn a significant profit, what it does announce next week will more than likely be an indicator as to whether or not the company has hit the bottom.

Of particular interest will be an update on the company's debt load. Standing at nearly US\$32 billion in debt, Valeant owes more than some entire countries do. As long as the company continues to be weighed down by this level of debt, Valeant posting anything in the black will be hard to achieve.

Valeant made a pledge to pay down US\$1.7 billion of its debt this year. As of June the company had paid US\$730 million, and set up another US\$273 million in scheduled payments to carry out the year, which means the company has to either deliver in terms of earnings or start selling off non-core assets.

Selling some of the company's low-performing, non-core assets could put a dent in Valeant's overall debt by several billion and reduce costs, but this is a catch-22 for the company. At a time when Valeant needs as much revenue as possible, selling a product that makes millions could help the bottom line now, but the loss of ongoing revenue from product sales could be far worse in subsequent quarters.

Valeant has already started down this path, first by terminating an agreement from last year with AstraZeneca regarding a drug used to treat moderate to severe plaque psoriasis. More recently, drug maker Almirall has expressed interest in Valeant's dermatology assets.

What can we expect from Valeant?

Analysts are, for the most part, expecting the company post earnings of US\$1.51 per share on revenues of US\$2.46 billion. The company should also provide an update with respect to the ongoing “speed bumps” it had with **Walgreens Boots Alliance**.

During the last quarter results from the dermatology sector were less than impressive as the company saw a decrease in volume, fill rates, and reduced average selling prices stemming from prescriptions filled from Walgreens. Resolving those issues during the most recent quarter was a priority for the company, so investors and analysts alike will be looking for an update.

Another area of concern for Valeant is the Xifaxan drug made by Salix Pharmaceuticals. Salix was acquired last year by Valeant, and Xifaxan is the leading product in that portfolio with sales in excess of US\$200 million in the first quarter, but projected sales for this quarter are set to come in much lower, which is partially to blame for Valeant’s updated guidance for the quarter being lower.

In my opinion, Valeant has come a long way from the reckless spending of the past, but the company is still very much a risky investment, and there are far better investments on the market today that could provide the growth that investors look for.

CATEGORY

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