Why Concordia International Corp. Has Fallen +28% Intraday

Description

To put it mildly, **Concordia International Corp.** (TSX:CXR)(NYSE:CXRX) shareholders are not happy. The shares have fallen more than 28% intraday.

Why?

To sum it up, Concordia lowered its revenues and earnings guidance for the year, is changing its CFO, and cut its dividend.

Let's take a look at 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 Concordia acquired mainly through debt in October 2015. AMCo 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 that 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, and more.

Why has it fallen?

There are a number of reasons why the market views Concordia negatively. First, Concordia lowered this year's guidance for its revenues and earnings.

Specifically, the company lowered its revenues to US$859-888 million from US$1,020-1,060 million. It lowered its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) to US$510-540 million from US$610-640 million. This is a 16% decline in revenue and EBITDA using the midpoints.

Second, Concordia's CFO is changing. Any management change adds another level of uncertainty. CFO Adrian de Saldanha will be leaving the company to pursue other opportunities. However, he will help out in the transition period, while Concordia's executive vice president, Edward Borkowski, steps up to the role of CFO. As a result, Mr. Borkowski will also step down from his position on the board.

Mr. Borkowski suits the CFO role because he was previously the CFO and executive vice president of Mylan N.V.

During the seven years he was there, he helped lead the company "from a US$900 million revenue U.S.-based firm, to an international leader in generic and branded pharmaceuticals through a number of strategic acquisitions and internally focused development of new products," according to Concordia's second-quarter-results announcement. Before joining Concordia, Mr. Borkowski also had experience as the CFO of a generic pharmaceutical company.

Third, Concordia is eliminating its dividend, so the capital may be put to better use; for example, it could be used for value creation or debt repayment. Personally, I think it'd be better for Concordia to pay off its debt first, which brings me to the fourth point.

Concordia targets the year-end net debt/EBITDA to be 6.4 times or lower compared with the first-quarter's target year-end net debt/EBITDA of approximately 5.5 times. This is a higher debt level than most investors like.

Fifth, about 66% of Concordia's revenues are generated outside the U.S., so if the U.S. dollar remains strong against other currencies, it'll translate to lower earnings and revenue for Concordia.

Conclusion

For a stock as volatile and risky as Concordia, a good way to keep investors sane is to start with a small percentage of their holdings in their portfolios (if they invest in it at all). All I can say is try not to be emotional about it. I'm not buying or selling Concordia; I'm employing a wait-and-see attitude until at least some of the reasons that are causing its shares to plummet are somewhat resolved.

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