



## Should You Buy Valeant Pharmaceuticals Intl Inc.?

### Description

It has been very painful for investors of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). At the end of August 2015, shares were trading at a little over \$300 a share. Now it is trading at a little over \$31 a share. Everyone who could check out of the Valeant Hedge Fund Hotel did, desperate to get their money out of the stock.

But a lot has changed over the past year that makes this stock an interesting one. After being called out for egregiously hiking the price of drugs and for accusations of fraud through its Philidor Rx Services partnership, the company is attempting to turn around.

The first smart move it made was hiring Joseph C. Papa, a pharmaceutical chief with a lot of experience and 500 million reasons to make Valeant great again. According to his compensation package, if he can get shares back to \$270, he'll receive a \$500 million payout. Although there is a long way to go, he's on the right track.

Valeant has been working to pay down the debt. By the end of 2016 management pledges to have paid back US\$1.7 billion of the US\$32 billion in debt it has. When Michael Pearson was CEO, he went crazy with acquisitions. Now the company needs to pay it back. It has already paid back US\$1.3 billion this year, so it's in a solid position. And it doesn't seem like Valeant's going to stop there thanks to the massive cash flow it generates. While paying down US\$1.3 billion, its cash position actually grew from US\$600 million to US\$850 million.

In the beginning of September Papa told *CNBC* that the company was focused on selling a bundle of non-core assets that could yield the company US\$8 billion. Cutting the debt by an additional US\$8 billion would reinvigorate investor confidence, pushing shares far higher than they are today.

What is a non-core asset anyway? Based on Papa's interview, it's anything that isn't dermatology or eye care. That being said, if someone made him an incredible offer for a core asset like Bausch & Lomb, he might be inclined to sell it. All in all, the non-core assets are about 20% of what the company offers, so if it can get US\$8 billion, that would be a great thing.

The question we must ask is whether Valeant will succeed in selling non-core assets or not. I'm

skeptical. Good negotiators recognize opportunity when it's presented to them. Buyer of Valeant's non-core assets will recognize that the company is desperate to pay down its debt, so they are not likely to pay the greatest of prices.

But if Valeant can achieve its sales goals, it might have a bright future ahead of it. Some people are suggesting that the U.S. presidential election could have a serious impact on pricing, and while that could be true, elections are full of rhetoric. If the future president actually does propose an action that would harm Valeant (and not just make a campaign statement), it could mean something. For now, the focus should be on the merits of the business.

So, should you buy Valeant?

Yes, but be very careful. There's no reason to take a very large position on this stock. It's true that it could go up by five to 10 times in the coming years, but it's also possible that it could get buried in its debt. My advice is to start slow and average in over time. You'll get to a full position at some point, but the risks won't be as great.

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