A Complete Disaster: Inside Concordia International Corp.'s Worst Quarter Yet

Description

"Exhausted" would be the best way to describe **Concordia International Corp.'s** (TSX:CXR)(NASDAQ:CXRX) management's tone during yesterday's disastrous earnings call. As per the latest Q3 filing, the tarnished Canadian pharmaceutical company reported revenues of $185.5 million and EPS of $.69 versus the consensus $206 million and $.35, respectively.

Moreover, EBITDA decreased 43.4% year over year, while operating margins declined 52% from Q3 2015. In light of the disappointing numbers, Concordia's management were left with no recourse but to suspend 2016 revenue guidance, further obfuscating the future of the company. This latest quarter was the worst yet in a series of bad quarters, and at this point, Concordia is purely a speculative play and utterly un-investable.

Business model proven to be unsustainable

As the majority of Concordia's debt-fueled acquisitions have been end of life cycle or off patent, the company continues to struggle amid mounting competition for some of its core brands. Q3 saw large year over year declines in Plaquenil (-$13.3 million), Nilandron (-$5.5 million), and, more importantly, Donnatal ($-11.3 million)–Concordia's biggest revenue driver in the United States.

Segment revenues for the International and North American segments were also hard hit with declines of 9.3% and 50% year over year, respectively; orphan drugs were the sole bright spot with an 8.3% increase.

And it's not just the competitive environment that's pressuring prices. Concordia is currently being investigated in the U.K. by the Competition and Market Authority (CMA) regarding unfair pricing of drugs covered by the National Health Service; management estimates that as much as 9% of Concordia's revenues might be affected by the investigation.

Toxic balance sheet

For Concordia, the only issue more contentious than its pricing practices is the company's incredible degree of leverage. As of Q3, Concordia is carrying over $3.25 billion in debt on the balance sheet, including a recent $350 million senior note issuance. And what does the company plan on doing with this $350 million? What else, but to acquire more assets?

Although the new CEO is well aware of the company's financial woes, deleveraging will be taking a back seat to exploring growth prospects and beefing up its current line for possible divestitures. Currently, Concordia's credit doesn't go very far as the capital markets are concerned (for example, 2023 bonds are going for just $.53 on the dollar), and with a market cap of just $135 million, the margin of error here is minuscule.

A glimmer of hope

Okay, so Concordia is a highly leveraged, tainted brand with no suitors for a potential buyout. That being said, there are few bright spots for a speculative case.

One, the company is expecting to launch 60 new products by Q4 2018. Two, management will be looking to streamline operations and boost margins through layoffs among the sales staff of the legacy brands. And three, there will be non-core asset sales to improve the balance sheet.

If the new CEO manages to implement these much-needed reforms, we might get something resembling a recovery, but, until then, leave Concordia to the traders.

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