Valeant Pharmaceuticals Intl Inc. Is in Trouble Again: Down 25%

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) fell about 25% on November 8, hitting a six-year low.

The culprit: a surprisingly weak sales forecast. The company cut its annual profit estimates to well below estimates following a third-quarter loss of US$1.22 billion.

Much of that loss stemmed from a US$1.05 billion goodwill impairment charge to write down the value of some U.S. businesses, including Salix. According to *The Financial Post*, Salix "makes top-selling gastrointestinal treatments and has been considered one of the drug maker's crown jewels."

Today, Valeant is looking to sell the segment.

Excluding write downs and non-recurring items, earnings were still just US$1.55 per share this quarter, well below the average estimate of US$1.76 per share. Sales were down 11% to just US$2.5 billion, also below the US$2.52 billion average estimate.

Incredibly weak results forced management to lower its financial targets for the year. Earnings guidance dropped to US$5.30-5.50 a share from US$6.60-7.00 previously.

The worst is yet to come

On its quarterly earnings call, management warned investors that recent poor results may just be the beginning, saying that that 2017 could be even more challenging given rising competition.

For example, Nitropress and Isuprel are two major drugs that will lose market exclusivity next year. According to new chief financial officer Paul Herendeen, investors should anticipate a "material" decline in sales. He expects lower total sales, EBITDA, and net income next year.

"We will dig our way out of part of the growth hole … but we will not crawl all the way out of that hole [next year]," Herendeen said. "It will be a down year."

Management has a steep climb to credibility

Valeant has a difficult road ahead.

Valeant's drug-pricing practices are under investigation by multiple U.S. agencies. The issue stems from possible predatory pricing schemes. For instance, after acquiring two cardiovascular products last year, the company reset their prices by more 200-500% despite making no formulaic changes.

A report by Citron Research showed possible misconduct, alleging that Valeant manipulated specialty pharmacies to artificially boost demand for its drugs, leading to higher prices. Citron even went as far to call Valeant "the pharmaceutical Enron."

In August major investor **T. Rowe Price Group Inc.** sued Valeant for that exact reason, accusing it of deceptive pricing strategies to artificially boost sales and profits.

Long term, Valeant looks like a binary investment. At best, its valuation resets to historical norms, implying shares have +200% upside. At worst, it could end in the collapse of the entire company (think Enron).

At this point, Valeant remains a lottery ticket of an investment.

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