



Valeant Pharmaceuticals Intl Inc. Drops After Q3 Results Disappoint

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) continued the downward slide that started a year ago; the stock plummeted another 20% on weaker than expected results.

For those investors stuck holding severely devalued shares of Valeant, there may be some hope in the future.

The story so far

A little over a year ago, Valent was the darling of the market. Valeant's business was based on getting cheap loans, acquiring drug companies, particularly ones with new-to-market products, and then integrating those drugs into its own distribution network with a bump in prices.

The model worked for a while, and each new deal was larger than the last; this propelled the company to become the largest on the TSX by market cap, surpassing even the biggest banks in the country.

One of the primary problems with Valeant's model (and there were several) was the debt It was accruing at an alarming pace. That debt is a staggering US\$30 billion, and with growing scrutiny over some hefty drug-price increases and mounting problems within Valeant's distribution network, the stock started the epic collapse investors remember all too well.

Valeant has since undergone a significant transition. The company has a new CEO, it's negotiated new drug deals, and it's serious about reducing debt. Valeant has also made it clear that it is in a transitional period and that sales of non-core assets to get debt under control are on the table as options.

Is it encouraging? Yes. Is it the right thing to do? Absolutely. But whether or not the market can cope with the reality that Valeant's attempted transformation will take is another issue. This leads to the latest quarterly results announcement.

Q3 results: brutally honest

Valeant provided an update on the most recent quarter this week, which was, in parts, lower than expected. Revenue for the quarter came in at US\$2.48 billion, which matched what had been forecast, but that was where the positive reporting ended.

Earnings per share of the quarter came in at \$1.55 per share, which was \$.025 per share lower than what was expected by analysts. If this miss wasn't bad enough, the company also provided updated guidance for the full year, which is, once again, being revised lower.

Valeant now expects revenue for 2016 to fall within the US\$9.55-9.65 billion range, which is down from the US\$9.9-10.1 billion the company previously estimated. Adjusted earnings for the full year are now expected to be US\$5.30-5.50, representing a drop of over US\$1.20 per share.

As expected, the market wasn't very happy with these results, and the stock dropped by nearly 20%. While Valeant has clawed back some of this loss, the stock may not be done dropping.

Is there hope for investors of Valeant?

In a word, yes. But that hope is contingent on both investors and the company taking to heart a couple of key points.

First, the days of Valeant having the largest market cap on the TSX are over. Valeant could very well make a recovery, but whether or not it will reach those previous heights is something nobody can foretell.

Second, Valeant is doing all the right things and saying what needs to be said. Inheriting US\$30 billion of debt, bleeding cash, and trying to fix a broken business model is neither an easy fix, nor is it something that can be fixed quickly.

The dedication and discipline Valeant has shown to steer the ship back on course is something that will take both time and patience. Investors of Valeant might be better served by waiting out the current storm until such a time the stock finally starts to recover.

In the interim, there are far better investment options on the market that will provide better results much sooner.

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