



Making the Case for Valeant Pharmaceuticals Intl Inc.: Why it's Not Worth it Yet

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) stock has been in shambles in 2016, plummeting more than 83%, but there is reason to be optimistic about the stock's potential in the long term.

The pharmaceutical giant has experienced several setbacks over the last 11 months. Glaucoma drug latanoprostene bunod failed to garner approval from the Food and Drug Administration (FDA) over the summer due to problems at the facility it is manufactured. More recently, psoriasis drug brodalumab's release was also pushed back.

Valeant's glaucoma medication could make a major splash if its February 2017 launch comes to fruition, as there is a growing demand for glaucoma drugs that will rise steadily over the next seven years. Following a decline in the industry from 2012 to 2015, the glaucoma market has bounced back, and it was worth \$5.7 billion in 2015. The market is expected to be worth \$7.6 billion by 2024.

Murray Fingeret, OD, chief of the optometry at the Department of Veterans Administration New York Harbor Healthcare System in New York City, tested latanoprostene bunod and backed it as an effective remedy for glaucoma.

Additionally, Valeant's auto-immune medication brodalumab was rejected by the FDA due to concerns regarding how the product is labelled rather than the efficacy of the product itself. Six of 6,000 patients who used the drug committed suicide, marking a 300% increase over the average of two suicides per 6,000.

Naturally, there could be other factors contributing to these statistics, and Valeant has three months to hash out the details of the product before receiving FDA approval. Experts have also backed the medication as an effective treatment for the skin condition, psoriasis.

Nevertheless, investors have good reason to be cautious in committing to the stock in the short term as third-quarter earnings were 18 cents per share below estimate, while revenue fell 11% year over year. Additionally, the company took a goodwill impairment charge of \$1.05 billion.

On top of these figures, Valeant seems like it will be gloomy in 2017 as numerous company medications are losing exclusivity, including its heavy-metal toxicity treatment Syprine, heart drug Nitropress, hepatitis C medication Virazole, and blood-pressure treatment Isuprel. Irritable-bowel-syndrome medication Xifaxan was named as the company's "billion-dollar product of 2016" by its former boss, and it has been a total fiasco.

Additionally, Valeant is \$30 billion in debt and it needs a controller, a head of quality, and solid advice to give the company the necessary boost it needs.

Despite it all, CEO Joe Papa seems optimistic; the company expects to have its debt re-cued to \$5 billion by 2018, while prices for skin products are rising by an average of 40%. Between the potential of brodalumab and latanoprostene bunod, Valeant may be making the first steps towards its turnaround efforts. However, the decline of its core products will continue to push down the stock through the rest of the year and much of 2017.

The company is currently in the process of selling some assets to help reduce its debt, including its Salix unit, which may be acquired by Japanese pharma Takeda for \$10 billion (\$5 billion lower than what Valeant shelled out for it in 2015).

Valeant shares are down 1.8% at Tuesday's market close with the stock trading at \$23.05. Valeant has a market cap of \$8 billion.

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