



Why Valeant Pharmaceuticals Intl Inc. Will Fail to Re-Invent Itself

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) had an abysmal year as the stock plummeted 86%. The company wants to re-invent itself to become a dominant player in the pharmaceutical scene again.

There were huge changes made this year as ex-CEO Michael Pearson stepped out and Joseph Papa stepped in. Joseph Papa is an excellent choice as the new CEO, and he's got a ton of incentive to bring the company out of the gutter, but I believe he's in way over his head. Valeant has severely damaged its reputation with investors across the globe, and I don't believe anything can reverse what has already happened.

As Warren Buffett once said, "It takes 20 years to build a reputation and five minutes to ruin it.". To say Valeant's reputation has been ruined is an understatement.

The company has faced so many scandals and endured so many short attacks that even the most contrarian of investors are avoiding this stock like the plague. Charlie Munger, Warren Buffett's right-hand man, even went as far as to call the company a "sewer." These are strong words put forth by the guru, but I believe he's right on the spot with his statement.

There are many contrarian investors that are looking to gain a quick profit by trying to get into Valeant. But there doesn't appear to be a bottom, and the upside may be limited considering the company's ruined reputation.

Activist investor Bill Ackman is now on the board of directors, and he's still fully invested, even after the massive decline the stock faced over the past year and a half. Don't follow Ackman into this one. Most of his original investment is already gone, and he's just trying to recover some of his losses, but I don't believe he'll be successful.

Valeant still has \$8 billion worth of debt and will need to sell its non-core assets at a loss. Buying high and selling low is never a good strategy to make money, and I believe the company will remain on damage control for the next few years before the stock can start moving higher.

Even if you're a believer in Bill Ackman and the new CEO Joseph Papa, any upside in 2017 will be very modest, and there's still the risk of a further correction as more disappointing earnings reports come in. There is also the risk of having more scandals should there be any shady findings from investigations going forward.

If you're a contrarian investor, then steer clear of Valeant. Its reputation is permanently damaged, and it's not going to soar anytime soon. There's still a huge mess that Michael Pearson left, and it won't be cleaned up anytime soon.

I have one simple rule. If there's any sign of shady activity in a company's history, then that makes the stock an automatic sell. Don't even think about picking up share in Valeant unless you're willing to lose it all.

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