Valeant Pharmaceuticals Intl Inc. Just Sold Over US$2 Billion in Assets: What Now?

Description

Joe Papa said his plan was to sell non-core assets, and sell non-core assets he has. According to *Reuters*, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) has sold US$2.12 billion worth of assets in its bid to pay down its gigantic +US$30 billion debt. And looking at the details of the acquisition, the deals appear to be quite lucrative.

The first sale is for its Dendreon cancer business, which it sold to China's Sanpower Group Co Ltd. for US$819.9 million. This deal might not seem all that significant, except for the fact that it bought it out of bankruptcy in 2015 for roughly US$300 million. Losing revenue always hurts a little, but being able to more than double your money in two years is significant, especially when it comes to paying down debt.

The other sale is three skincare brands that it is selling to L'Oreal, a French cosmetics group. All told, it sold CeraVe, AcneFree, and Ambi for roughly US$1.3 billion in cash. Again, this deal was lucrative because the three brands only generated about US$168 million in yearly revenue, so Valeant definitely is the winner in this deal.

While skincare is a rapidly expanding business, paying down debt is more important. Besides, Valeant's not too upset about this. As *Reuters* wrote, "Valeant said its lotion for plaque psoriases, IDP-118 … was more effective and reduced irritation in patients in a key study." So, it sold lotions that might not have been as effective for eight times its yearly revenue.

The company is also reported to have made 95 different price increases across more than 50 products, which is quite daring considering how much scrutiny the company has been under due to the controversies of the past year and a half.

According to **Wells Fargo** analyst David Maris, "In our opinion, this is an example of Valeant's continued reliance on price as a means of growth and may also signal that Valeant's prescription volumes continue to remain challenged." In other words, the business might have no choice but to increase prices, even if it means that it draws the ire of regulators.

Nevertheless, Valeant is making moves, and as investors, we have to decide if we want to buy the stock. My stance is rather simple.

When management is incentivized to make a company a success, I'm more inclined to like the company. And Valeant has incentivized Joe Papa to make the company a success. If the stock returns to US$150 a share, he receives US$100 million in performance-based stock units. And if he can get it back to US$270, he'll receive US$500 million in performance-based stock units. Obviously, he wants to succeed, which will make shareholders succeed.

But the negative thing is that Valeant is still carrying a tonne of debt. While the proceeds from these sales will help it pay off some of its debt, the reality is, the company is still carrying far too much. If the company can't find buyers for its other non-core assets, it could be in trouble.

However, an analyst from Mizuho Security USA believes that Valeant will look to sell its dental business, which will help pay down the debt. And based on how strong these deals were for the company, perhaps it has more negotiating power than we originally thought.

I'm still not a buyer of Valeant, but now that it is executing its strategy to sell its non-core assets, it has certainly gained a little more intrigue from me. But I remain on the sidelines and will stay there until it announces a few more deals.

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