How 2017 Will Unfold for Valeant Pharmaceuticals Intl Inc.

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) took a hammering last year. The stock lost over 85% value over the course of the year. It's becoming clear that a similar drop will occur in 2017, which means that bettering last year's performance will be more than attainable, and the company can focus on repairing the business.

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Here's a look at some of the key areas that Valeant will be focusing on over the course of 2017.

Reduce debt

The core of Valeant's efforts for this year (and likely for the next few years) will be to get debt under control. When troubles began at Valeant over a year ago, debt ballooned to a staggering US$30 billion. As Valeant's stock price and market cap continued to drop, that debt became harder to pay down.

To combat that debt load, nearly all initiatives that Valeant has on the table for the next year will have an underlying objective of reducing debt.

Sale of non-core assets

Part of Valeant's turnaround strategy was to identify non-core assets that could be sold off to pay down debt. In this regard, Valeant is already well ahead of the game, having sold off three skincare brands this month to L'Oréal SA and the cancer-treatment Dendreon to Sanpower Group Co. Ltd., a private Chinese company.

Both deals will fetch just over US$2 billion, putting an impressive dent in Valeant's mountain of debt.

More deals are likely to follow throughout the year. Valeant CEO Joseph Papa set a target to reduce debt by US$5 billion over the next 18 months.

The Salix gastrointestinal business is widely seen as another asset that could provide over US$1 billion from a sale, but whether or not Salix is truly a "non-core asset" brings up an entirely different argument. By selling off assets, Valeant is also forfeiting the future revenue from those assets, which could do more harm than good.

Improve operations

One of the key risks Valeant has in selling non-core assets is that doing so could put Valeant in a weakened position come earnings time.

This is where deals such as the distribution agreement signed last year with **Walgreens Boots Alliance** come into play. By entering new agreements that have potential revenue gains for the company, Valeant can continue to tackle the company's debt issues while setting up long-term revenue streams that are critical to the future of the company.

From a staffing perspective, Valeant invested heavily into bringing in both Joseph Papa and Paul Herendeen to steer the company in a new and profitable direction. Both bring a wealth of experience to the table which should ultimately prove invaluable to the company, if allotted enough time to do so and if external factors are kept at bay.

The Trump factor

President Trump has on more than one occasion pledged to go to war with pharmaceutical companies over the price of drugs, promising to lower prices across the board for consumers. He's also considered the concept of opening markets to allow sales from overseas markets to come into play, which would put more downward pressure on Valeant's prices.

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Given Valeant's portfolio of, for the most part, older medications that require price increases to remain competitive and profitable, a move to reform the prescription drug industry by the Trump administration could pose more worries for Valeant in 2017.

Is Valeant a good investment for 2017?

Valeant may go down as the worst investment of 2016, and the prospects for 2017 don't look any better, at least right now. Handling a mountain of debt, choosing which products to divest, and coming up with a long-term viable plan are just some of the challenges that Valeant must face, and some decisions represent a seemingly no-win scenario for the company.

In my opinion, there are far better opportunities in the market, and any temporary movements upward by Valeant, as well as any perceived discounted price that investors may see in Valeant, are just temporary.

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Date
2025/07/29
Date Created
2017/01/27
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