Will Valeant Pharmaceuticals Intl Inc. Survive the Trump Presidency?

Description

For shareholders of **Valeant Pharmaceutical Intl Inc.** (TSX:VRX)(NYSE:VRX), it would seem that even a hardline capitalist like Donald Trump might not be the much-needed catalyst behind a share-price recovery, especially as the newly elected president has been openly critical of price hikes in the pharmaceutical industry.

Unfortunately, this lack of support from the Republican administration is just the latest setback for Valeant, which continues to struggle with sluggish sales from its key brands and a massive debt burden standing in the way of any near-term turnarounds. So can Valeant survive the next four years? Well that depends on how successfully it can shed its assets.

The good

If you are a Valeant shareholder, you can take solace in the fact that the company is still generating tremendous cash flow to the tune of $1.8 billion in 2017 by **Deutsche Bank's** estimates. Furthermore, Valeant also had cash on hand of $658.5 million and revolver ability of $400 million, as per its Q3 2016 filings, which, combined with its recent divestiture of its skincare brands to L'Oreal for $1.3 billion, means the company has adequate liquidity to meet any near-term covenants.

The bad

That being said, it's not just a critical president that Valeant has to contend with. It bears repeating that Valeant's $30 billion worth of debt overhang might prove to be an impassable barrier in the way of any turnaround plans.

Moreover, you can expect the next few years to be particularly tumultuous as $17 billion of this debt is due within the next five years with over $8 billion coming down in 2020. Furthermore, one of Valeant's key products, Xifaxan, is facing a patent challenge from rival **Actavis**, which, if successful, would lead to further pressure on Valeant's EBITDA.

What now?

In a nutshell, Valeant's survival over the next four years hinges on two key factors: asset sales and continued cash flow generation. If we are assuming $1.9-2 billion in annual free cash flow in the near term, and if Valeant achieves its pledge to cut debt by $5 billion within the next 18 months, we are looking at non-core asset sales of $3 billion or so to bring debt levels down to manageable levels.

Of course, the best-case scenario would divestitures of Salix, Valeant's eye surgery unit, and a full $8 billion worth of the identified non-core assets. Based on Deutsche Bank's figures, this "dream scenario" would bring in over $18 billion to Valeant's coffers and essentially solidify the company's future (if the recent sale of its skincare line is any indication, management is certainly on the right path).

In other words, current and future investors have to keep their attention on future asset sales; the bigger the brand being sold, the better. In any case, Valeant is currently a "show me" story with a soft turnaround in the works; while the company will not be going bankrupt anytime soon (barring some sort of legal catastrophe), don't expect the company to come roaring back to prominence, especially as it continues to face steep pricing competition for its key brands.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing

Date
2025/10/01
Date Created
2017/01/28
Author
ajtun