



## What Could Go Right for Valeant Pharmaceutical Intl Inc.?

### Description

**Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) has been struggling to sustain a rally back to higher levels, even over a year after the negative press that sent the stock tumbling by over 90%. The company is in fire-sale mode with new CEO Joseph Papa at the helm, and it's going to be a difficult road to recovery. But is a turnaround possible?

The company needs to get the most out of its sales, and it needs to raise enough money before the massive mountain of debt starts becoming due. The debt got as high as US\$30 billion, but the company has since been selling non-core assets to pay it off. The company raised \$2.1 billion from its recent round of sales, but this is just a small step in a journey of a thousand miles.

Many investors have remained bearish on Valeant, even under \$20 per share. But what if everything works out smoothly for the company? Can the stock find its legs and reinvent itself? Or has the company damaged its reputation beyond repair?

The new management team led by Joseph Papa has set a goal to raise US\$5 billion from divestitures over the next year and a half. The company wants to sell its non-core assets at a fair price, but it also wants to do so in a timely manner. It's not a mystery to potential buyers that Valeant has a substantial amount of pressure on it to get its divestitures done, so the company may not have too much bargaining power going forward. There's a real risk that the company could end up selling its non-core assets at a loss, and this could send the stock of Valeant down to even lower levels.

But what if there is a bidding war for some of Valeant's assets? It's quite possible we could see fair prices paid for the company's assets. Valeant may actually sell for a higher price than what it originally paid for assets, but to do this, Joseph Papa and the new management team will need to step up their game, because it's most likely going to be a hard sale.

After the divestitures, it's expected that the growth outlook will be continuously downgraded, but this may already be baked in to the stock. The company is dirt cheap right now, and many investors expect the company to be a no-growth name for the time being, at least until the company is out of damage-control mode.

I follow one simple rule when investing in beaten-up stocks: if there are any signs of shady business practices in the company's past, I am out, even if the stock is trading at a huge discount to its intrinsic value. Personally, I would never consider touching Valeant. There could be more downside from current levels if things don't pan out.

But if you believe in Joseph Papa and think the management team can pull off some great deals, then you may want to consider buying the stock. I think it's a shot in the dark, but there is a scenario where Valeant can turn itself around.

Stay smart. Stay hungry. Stay Foolish.

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1. Investing

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1. Investing

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