



Are We Witnessing the Resurgence of Valeant Pharmaceuticals Intl Inc.?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX), once darling of the market that was subject to one of the most epic drops of all time, may be on the verge of making a comeback ... maybe.

Valeant got into hot water in part due to a business model that relied on using cheap loans to acquire drug companies and then increasing the price of those newly acquired drugs to finance additional loans and acquisitions.

Eventually, the easy loans dried up, the drug increases caught the attention of a myriad of authorities, and the eventual fallout resulted in the stock losing over 90% of its value and a whopping US\$30 billion in debt. Ouch.

Valeant's turnaround plan

With new management and a new vision, Valeant engaged an ambitious turnaround last year that put emphasis on reducing debt, streamlining costs, and ceasing new acquisitions, at least for the time being.

And that's exactly what Valeant has been doing. Earlier this year, Valeant offloaded a portfolio of skincare brands to **L'Oréal SA** and then sold the cancer treatment drug Dendreon to a private Chinese company. Both deals brought in a little over US\$2 billion.

CEO Joseph Papa has slapped a US\$5 billion debt-reduction target through 2018, and Valeant has noted on multiple occasions that non-core assets would be sold off to meet that goal.

Ironically, some of Valeant's core holdings could, in theory, lessen the pain and nearly eliminate the company's debt. Bausch and Lomb as well as the Salix brands could bring in as much as US\$20 billion, but the immediate debt relief would come at the cost of significantly less ongoing revenue.

Non-core assets are the safer option and could still fetch as much as US\$12 billion. And then there's a host of new drugs that Valeant is prepping to bring to market. These drugs could provide potentially billions in revenue for the troubled company or could be sold off to get debt under control.

One such drug is called Siliq, used to treat moderate to severe plaque psoriasis; it recently got FDA approval. In case that drug sounds familiar to Valeant investors, that's because, since being acquired back in 2015, the drug has been undergoing trials and tests to secure FDA approval, which finally came last month.

To shore up company finances, Valeant sold the distribution rights to Siliq in Europe last year, but with nearly 1.5 million Americans suffering from psoriasis, the revenue potential for Siliq just in the American market remains huge and could be measured in the billions, despite the crowded market that Siliq will be entering.

Siliq is unlikely to be the solution to all of Valeant's problems, but it could be a growing source of much-needed revenue for the company over the next few years.

Is Valeant a good investment?

Some investors might feel tempted to invest in Valeant, especially considering the low stock price and the portfolio of drugs Valeant still has. The Bausch and Lomb brand itself may be worth twice the current valuation of the entire company.

But Valeant is too heavily burdened in debt to pose any real interest as an investment opportunity. The efforts that management has made so far to turn the company around are the right ones, but ultimately, Valeant needs to reduce the mountain of debt that weighs it down and use a profitable business model that isn't reliant on cheap loans or significantly raising drug prices.

In my opinion, there are far better options for investors to consider over Valeant.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/29

Date Created

2017/02/28

Author

dafxentiou

default watermark

default watermark