Stay Away From Valeant Pharmaceuticals Intl Inc.

Description

As we all know, **Valeant Pharmaceuticals Intl Inc**. (TSX:VRX)(NYSE:VRX) has been in a free fall for a while now. With its history and the scars that remain, this fall will be hard to recover from.

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Let's review a little bit of this history. Back in 2015, the company was on a dangerous path. Valeant was still embarking on its aggressive acquisition strategy that even a debt-to-capital ratio of 70% and a debt-to-EBITDA ratio of over six times could not stop. The company seems to have turned a blind eye to the risk involved and the lack of sustainability of this strategy.

For Valeant and its investors, it seemed it was all about optimism. Yet the company's bonds had been downgraded to junk-bond status; **Moody's** gave Valeant a Ba3 rating, which is three levels below investment grade or speculative, and S&P rated the company at BB.

But people made money — employees and investors alike. They were happily seeing their shares rise and taking the profit.

Until it stopped.

Attention turned to the aggressive price hikes the company instituted on drugs it acquired. Valeant raised its net prices on its portfolio of U.S. drugs by over 40% between October 2014 and October 2015. Prices on niche drugs skyrocketed. For example, two life-saving heart drugs, Isuprel and Nirtropress, saw a 500% and 200% price hike, respectively.

The company's shares went into a nosedive, accounting practices came under scrutiny, and the heavily indebted balance sheet became an issue. Questions of the possibility of a default linger.

So, it comes as no surprise that investors are watching this company's results closely. And things are not looking good: 2016 revenue declined 16%, and management is forecasting a rough 2017; revenues are expected to fall as much as 8% due to pricing pressure and fewer prescriptions.

And on the balance sheet side, things have not really improved. The company has paid down some debt ($519 million in the fourth quarter) and continues its divestitures, but the debt-to-capital ratio still stands at over 80% and the debt-to-EBITDA ratio is still over six times. These are dangerous levels, even for a company seeing increasing revenues.

Valeant is experiencing declining revenues and pricing pressure, which makes the situation even worse. It’s a situation investors should definitely stay away from.

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