Has Valeant Pharmaceuticals Intl Inc. Hit the Bottom?

Description

Just when you thought **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) couldn't take any more bad news, billionaire investor William Ackman finally sold off the entire stake of Valeant last week at a nearly US$3 billion loss.

Ackman's Pershing Square was one of Valeant's largest investors in the months following the epic collapse of Valeant with nearly US$3.2 billion invested. Pershing Square bought into Valeant and watched it ascend to over $300 in the summer of 2015 before crashing to the current level of below $15.

What does this mean for Valeant?

Pershing's sell-off resulted in Valeant dropping 10% this past week, which is a new low in a two-year drop, marking one of the most epic collapses of a company in recent memory.

Unfortunately, Ackman's departure could be akin to a no-confidence vote for Valeant's recovery.

Valeant's troubles stemmed from a non-sustainable business model that involved using cheap loans to acquire drug companies and then pushing up the cost of drugs. This led to a mountain of debt, and a slew of drug-pricing investigations and audits uncovered accounting issues.

Valeant has worked tirelessly to try to fix all of the individual issues over the past two years, but the problems may be insurmountable, at least over the immediate term.

Valeant already has a new CEO in Joseph Papa, who, as a veteran of the industry, has demonstrated that he has the discipline to get the company on the right track. The company has already sold off a number of skin-care products to **L'Oréal** and sold off interest in Dendreon to a Chinese company, netting over $2.8 billion from both deals.

Additional deals are more than likely from Valeant over the course of the year, which could fetch an additional $2 billion to meet or surpass aggressive debt-reduction targets.

What does this mean for Ackman and Pershing Square?

Ackman walking away from Valeant is significant, but it was not entirely unexpected. Ackman had a seat on the board of Valeant and was one of the company’s staunchest supporters.

Still, even the most vocal of supporters have their limits, and a US$2.8 billion loss appears to have been the limit for Ackman.

What does this mean for investors of Valeant?

In short, Valeant is cheap, but cheap doesn’t necessarily mean good in the world of investments. While the recent price drop has put some investors on alert, there’s no reason to consider investing in Valeant at this point. Then again, the company finished 2016 with nearly US$2 billion in free cash flow, which, at current valuations, is just over 2.5 times free cash flow. Yes, it’s cheap, but is there any hope for a resurgence?

Valeant still has nearly US$30 billion in debt, a failed business model that needs to be reworked, and is the subject of several ongoing investigations. That hardly makes the company a sound investment option.

There’s an argument to be made about waiting to sell Valeant, as the company has been beaten down so hard that any form of good news will send the stock up considerably. The sale of the cosmetics arm to L’Oréal was met with a +10% surge in the stock price. Additional sales could provide existing investors with a suitable bump to exit it.

In my opinion, Valeant is by far one of the riskiest stocks on the market, and there are far better alternatives to invest in.

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