



With Ackman Gone, Has Valeant Pharmaceuticals Intl Inc. Hit Rock Bottom?

Description

Over the past two years, the investment waters have been rocky for many companies across a number of industries, from commodities-based companies trading in oil and gas to utilities companies and large banks affected by rising interest rates to pharmaceutical companies experiencing volatile valuations based on political and regulatory expectations. We have also seen a few scandals rock some companies and pave the way for potential volatility in the future.

I'll be looking specifically at **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) and the path the company has taken since iconic activist investor Bill Ackman announced that he dumped his stake in the Canadian pharmaceutical giant, reportedly taking a loss of US\$2.8 billion or more.

What happened?

Valeant's largest individual shareholder, Bill Ackman's **Pershing Square Capital Management**, spent a disproportionate amount of time on a vast, expensive, and public campaign to revitalize Valeant's stock price, which has dipped more than 90% since the commencement of Pershing Square's investment cycle in Valeant.

Mr. Ackman noted that the nature of Valeant's business model, in which the company would borrow heavily to acquire assets (many with limited lifespans) and raise prices before generics ate away at market share, relied much more heavily on skilled capital allocation and execution than other businesses, placing an abnormal amount of reliance on management.

Since selling his stake, Ackman has been openly critical of strategic errors on the part of former CEO Michael Pearson and has suggested that the time and effort needed to revive Valeant from the brink of bankruptcy may simply not be worth it.

Conclusion

The halo effect of having Bill Ackman on board was a huge win for Valeant and one of the reasons the pharmaceutical company's stock price was able to skyrocket to over \$335 per share in 2015. Now trading below \$15, the out-of-favour pharmaceutical company has likely seen its "coattail" investing

base disperse; those who are left are only the true believers and those who believe enough value exists at the current price to justify waiting a substantial amount of time to see returns.

With the amount of debt on the company's balance sheet, adjusting for the amount of free cash flow generated by the business, it will be years until management can begin returning value to shareholders. If Valeant is indeed able to steer clear of bankruptcy and pay down debt, I believe this company has enough of a pipeline of cash flow-producing assets to eventually begin to grow again.

As for the company hitting rock bottom, it remains difficult to speculate.

Stay Foolish, my friends.

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