Valeant Pharmaceuticals Intl Inc.: Is a Recovery Possible?

Description

In a little over one year, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) has gone from being a core holding to virtually nothing.

Valeant was once the darling of the market. Surging on a series of drug company acquisitions, Valeant even surpassed the big banks by market cap at one point before commencing that epic fall that resulted in billions evaporating.

How did this happen?

Valeant's business model was reliant on scooping up other drug companies using cheap loans and then raising prices on newly acquired drugs. Unfortunately, those cheap loans had to be repaid, and the price increases on those drugs were significant enough to attract the attention of lawmakers and regulatory bodies in the U.S.

Additionally, the uncovering of questionable practices with a pharmacy distributor and accounting errors added to Valeant's woes, ultimately leading to a change in the top management of the company.

Valeant's stock price, which, at one point during the summer of 2015, was trading well over $250 per share, plummeted to just $30 and has since continued to lose value, dropping to below $13 this month.

New Valeant, but the same (and more) issues persist

One of the main issues that CEO Joseph Papa is tasked with is addressing a US$30 billion mountain of debt. With no new deals on the horizon, and the old business model effectively dead, Valeant is pivoting to a less controversial business model that will provide revenues needed to keep the company afloat.

To combat that mammoth debt pile, Valeant has noted repeatedly that the company would be selling non-core assets to pay down debt. Papa stated last year that selling some of those assets could raise as much as $8 billion.

Earlier this year, Valeant sold some of those assets, but that only garnered $2.1 billion, falling far short of what the company needs. Selling assets is only a stop-gap solution, however, as any debt relief will be offset because the company will no longer receive revenues from the sold-off products. Therefore, the new business model and asset sales need to coordinate with each other.

To add to Valeant's woes, Bill Ackman — who was one of the loudest proponents and investors in the company — sold his stake in the beleaguered company last month, acknowledging the loss of billions in the company. Ackman's sell-off sparked Valeant's stock to drop to new lows.

Can Valeant recover?

Valeant's recovery hinges on three key points that the company and investors need to come to terms with.

First, as far as bad news weighing down a stock, Valeant's epic drop is perhaps the most memorable in recent memory, and that's the first thing that current investors need to come to terms with. Valeant will not surge back up to the levels we saw two years ago or even anywhere close. Forget $200 or even $80 per share.

Second, this is a new Valeant. This new Valeant is going to need a different business model than its former self, as the cheap loans and quick acquisitions are no longer going to be in the cards. Management has done well in setting up distribution agreements and endeavouring to right the ship, but it is a difficult task that will take time.

Finally, Valeant's debt is massive, but so too are the assets the company has at its disposal. Selling assets and bringing to market new products will be key to Valeant maintaining a flow of revenue, while the business model is revamped. Valeant has several new drugs coming to market, and other existing drugs that continue to perform well, including Xifaxan, the often-touted gastrointestinal drug which remains Valeant's top-selling product.

Now, there are far better investments on the market for investors, many of which can offer growth and income prospects for investors that far exceed what Valeant can offer.

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