What Canopy Growth Corp can Learn From Valeant Pharmaceuticals Intl Inc

Description

In case you have yet to hear the news, please brace yourself. Shares of **Valeant Pharmaceuticals Intl Inc** (TSX:VRX)(NYSE:VRX) hit a new 52-week low this past Friday. Shares touched a low of $11.30 before closing at a price of $11.45. The good news seems to be for those on the sidelines considering this as an investment in addition to the short sellers.

Going back several years, what made Valeant Pharmaceuticals Intl Inc a fantastic investment was the company's ability to buy a product from a competitor (or the entire company in some cases) and go to work on improving margins. The company was the model to follow for others in the industry. No research and development was done, prices were raised and expenses were often reduced in an effort to increase the bottom line for shareholders. The company seemed like a dream to investors.

The challenge that reared its ugly head was the way the company disclosed and accounted for transactions to at least one specialty pharmacy which they (Valeant Pharmaceuticals Intl Inc) controlled. After this was brought out by the talented short seller Andrew Left, the fortunes of the company quickly changed. Needing to replace the CEO and bring famed hedge fund investor Bill Ackman onto the board of directors, the company continued to spiral downwards.

Having taken on a large amount of debt to finance the product line expansion, the company is now in a position to spend close to 18% of revenues on interest expenses. Barring a takeover from more solvent suitor, this company does not have the best odds of survival in spite of a number of positive cash generating products.

Enter **Canopy Growth Corp** (TSX:WEED).

As many investors are aware, Canopy Growth Corp has done a fantastic job at consolidating the marijuana industry. While industry consolidation is typical in a mature industry, it is clear that management understands the increase in power held by each seller if there are fewer sellers in the market.

While consumers may dislike the result of industry consolidation, the action can be significantly beneficial to shareholders. When consumers have fewer choices, the result is often a higher cost for the consumer. The result for the company is often higher profit.

What Canopy Growth Corp can learn

While Canopy Growth Corp has done a fantastic job at consolidating the industry to make themselves the biggest company in the industry, the reality is the company must now deliver an excellent product to Canadian consumers while maintaining a high degree of customer service and investor trust. As the biggest player in the marijuana industry, Canopy Growth Corp will be the standard for professional analysts and short sellers to benchmark the rest of the industry.

Although I can only guess, I bet the words of wisdom from senior management at Valeant

Pharmaceuticals Intl Inc would go something like this: “don’t slip, you’re under a microscope”.

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Date
2025/07/30
Date Created
2017/04/24
Author
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