What a Return to Profits for Valeant Pharmaceuticals Intl Inc. Means

Description

The day that many investors thought would never come about again, at least not in any reasonable timeline, finally came this month, as **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) finally posted a profit.

This was the first profit that Valeant has posted in six quarters thanks largely in part to a one-off tax gain. Still, shares of the company have soared over 35% since the quarterly announcement, which was a welcome breath of fresh air for the beleaguered company.

Quarterly results: are they a hint of better times to come?

Valeant reported first-quarter results this week which were better than expected. In fact, the results were so improved that Valeant also provided an updated outlook for the rest of the year, noting that earnings would come in higher than expected.

Revenue for the first quarter came in at $2.11 billion, reflecting an 11% decrease over the same quarter last year. Earnings came in at US$628 million, or $1.79 per diluted share. In the same quarter last year, Valeant posted a loss of US$374 million, or US$1.08 per share.

Valeant's updated guidance for the rest of the year now calls for adjusted EBITDA to fall in between US$3.6 billion and US$3.75 billion.

What about Valeant's debt?

Perhaps the one thing that investors were more anxious to hear about than anything else was an update on the staggering US$30.2 billion in debt the company has.

Valeant managed to reduce that debt down to US$28.5 billion in the quarter, staying true to the commitments the company made to get debt under control over the next few years. Valeant has paid back a total of US$3.6 billion over the past year and has plans to pay back US$5 billion by next February through a combination of asset sales and cuts.

Two dates that watchers of Valeant will want to take note of are in 2020 and 2022, when nearly half of all Valeant’s debt comes due; US$5.8 billion is due in 2020, and over US$10.5 billion will come to maturity in 2022.

That gives CEO Joseph Papa and his team a little over two years to improve the company’s ability to generate revenue and take strides to combat debt. Valeant has already ruled out eliminating all of the debt that is owed; it intends to maintain a healthy credit profile that the company can use when needed.

CFO Paul Herendeen responded to concerns about Valeant lacking the ability to pay off its debt: “If we take care of our debt, and we will, our equity will take care of itself.”

Are better times ahead for Valeant?

Valeant is on the road to what will be a very long and difficult turnaround. As encouraging as these results are, the fact remains that Valeant has over US$28 billion in debt — more than half of which is reaching maturity within a two-year span that begins in just under three years.

In other words, while Valeant may yet emerge from the current environment, it will be a rough road ahead for the company, and difficult decisions on asset sales and refinancing debt will more than likely consume the company for the next few years.

There’s also the issue of revenue vs. interest. Valeant impressively paid off a significant portion of debt over the past year, but the perceived savings on interest from that debt reduction were offset by what is a more concerning issue: declining revenue. While Valeant has stated in the past that there are upcoming drugs that will provide new and lucrative sources of revenue, some of those, including Xifaxan (Valeant’s biggest product), came up short in the most recent quarter — down 26% to US$185 million in the quarter over the same quarter last year.

In my opinion, there are far better options on the market than Valeant for investors to turn to at the moment, nearly all of which will provide better returns over the long term.

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