Get 'Em While They're Hot: Shares of Valeant Pharmaceuticals Intl Inc. Climb

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) has continued to make headway towards its proposed $5 billion debt-repayment schedule set for February 2018. Valeant announced its intention to sell its iNova pharmaceuticals business to two funds managed by The Carlyle Group and Pacific Equity Partners — two groups which were said to have been rival bidders for the iNova business for some time.

With the purchase of the iNova business, The Carlyle Group and Pacific Equity Partners gain a portfolio of pain management, weight management, and cardiology products that present growth opportunities in new markets. Valeant, a company saddled by a debt load of more than $28 billion, will use the funds to pay down debt when the deal closes later this year. The cash deal is expected to close during the second half of 2017 and totals US$930 million, representing a significant portion of the $5 billion Valeant has committed to come up with to improve its capital structure.

I have covered Valeant's debt repayment strategy for some time now, highlighting the fact that the former pharmaceuticals growth giant has continued to make strides toward its debt-repayment goals, signaling to investors that a return to manageable and organic growth and profitability are concepts that may materialize sooner rather than later.

Investors hoping to cash in on a surge of profitability will likely have to wait for some time, as the company is likely to continue to de-lever after it completes its $5 billion repayment schedule, albeit at a slower pace. In order to return to its former greatness, it appears Valeant will still have a number of hurdles to jump over after reducing debt to a manageable level. Increasing free cash flow from operations and reinvesting those funds into R&D is likely to take centre stage following a concentrated deleveraging effort.

What I like, and what the market seems to appreciate (with Valeant shares trading more than 10% higher at the time of writing), is that the pharmaceuticals company is clearly working to get its deleveraging stage out of the way as quickly as possible to return to its strategic focus on growth and increasing value for shareholders by other means.

Bottom line

Valeant has been hit hard by Mr. Market. The company is currently trading just above the book value of its assets. As Valeant continues to move towards its long-term strategic growth plan, I believe investors will begin to realize that some sort of premium should exist for this company — one with a management team that appears to be ready to do what is necessary to become profitable once again.

Stay Foolish, my friends.

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