Valeant Pharmaceuticals Intl Inc. Takes Another Step Closer to Death

Description

Last week, shares of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) rose on the news the company was selling a subsidiary business called iNova Pharmaceuticals for approximately $930 million in cash. For the last three trading days of the week, here is how shares opened and closed:

Wednesday, June 7: Open $16.94; close $16.42

Thursday, June 8: Open $16.9; close $16.80

Friday, June 9: Open $17.79; close $16.67

As we can clearly observe, the news which was announced on Thursday morning gave the company a jumpstart in trading for the day, but the two steps forward became two steps backward. Shares closed the day on Friday at a price lower than the opening price on Wednesday.

What investors can take away from this share price movement is that the market sentiment around this security is still not so good. Put another way, investors may be starting to realize that the moves made by the company may not be as beneficial over the long term as previously expected.

Given that the company is again selling off revenue-generating parts of the business, it will be more challenging to meet the demands of the interest expenses going forward. Although the company has clearly stated that the expectation is to pay back long-term debt with the money received from the sale of this business, the reality is that the sale of the business is nothing more than a receding tide.

Although the long-term debt will decline in tandem with the sale of the business, the amount of interest expense that the company must pay to maintain the debt (as a percentage of revenues) will not move by much or potentially increase further. Valeant is currently sitting with debt of close to $28.5 billion. The interest expense for fiscal 2016 was nothing less than $1.8 billion. During the first quarter of 2017, the interest expense totaled $474 million, which could be estimated as close to $1.9 billion on an annual basis.

Things are not getting any better for this company.

For fiscal 2015 and 2016, the interest expense as a percentage of revenues was 14.96% in 2015 and then 18.98% in 2016. For the first quarter of 2017, the percentage jumped to close to 22.5%.

Although the company is taking actions to improve the balance sheet and long-term financial position, investors must do a little more digging for themselves before investing. Assuming the company continues doing away with revenue-generating divisions, the cash flows available to fund the debt will diminish over time. What will be left instead is a large mountain of debt and only a small amount of revenues which will not be sufficient to cover the amount of interest expenses, let alone the amortization of the debt.

Buyer, beware.

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