Is Valeant Pharmaceuticals Intl Inc. a Viable Investment Opportunity?

Description

Most investors have been watching the epic collapse of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) for nearly two years now. The once darling of the market, which had a market cap greater than many of Canada's big banks, came crashing down by over 90%.

The reasons for that drop are well known and have become a source of pain for one-time investors of the company. Chief among those reasons was a flawed business model that was reliant on cheap loans to finance acquisitions of drugs, which Valeant then raised prices on before moving to the next acquisition.

This left the company with a staggering amount of debt — over US$30 billion, which eventually became unmanageable, and revenues started to drop.

Since that time, Valeant has changed upper management, committed to changing to a more sustainable business model that will provide a steady stream of revenue, and placed debt reduction as a major goal moving forward. The company has also stated on more than one occasion that to meet debt-reduction targets, the sale of some non-core company assets would be considered.

Debt reduction continues … slowly and at a cost

Valeant's debt is massive, but not all the debt is due at the same time — something that investors often overlook. Roughly half of Valeant's debt comes due over the next decade, which gives the company some time to pay it down.

Another factor to consider is that while Valeant has put a focus on reducing debt, the company is not aiming to wipe out 100% of its debt. CEO Joseph Papa reiterated this recently: "The right place for our debt is somewhere … in the range of US$15 billion to US$20 billion."

Early this year, Valeant announced a sale of some of those assets and raised $2.1 billion, which was largely applied to that debt mountain. While this helped Valeant get closer to debt targets, selling those assets has long-term ramifications to cash flow; the benefit of the one-time sale must be balanced with the continued loss of revenue the drugs that were sold would have otherwise made. Earlier this month, Valeant announced the sale of the iNova subsidiary worth US$930 million.

Valeant will apply half a billion towards upcoming debt obligations — notably, US$5 billion comes due in February 2018. While the iNova sale may provide relief for the company, iNova was generating US$175 million in revenue for Valeant, which is now lost.

Overall, when it comes to debt reduction, Valeant is doing what needs to be done, as difficult and painful as it is.

What about Valeant's business model?

Valeant's business model is the other concern that many investors still feel uncertain of. Valeant has stated repeatedly that core assets of the company will not be sold, and investors should take solace in that. Valeant's dermatology business and the Bausch & Lomb unit are often regarded as some of the most lucrative holdings of the company, which, incidentally, are often valued higher than Valeant itself.

Valeant has several new drugs coming to market in the dermatology sector, which could prove to be significant sources of revenue over the coming years.

Is Valeant a good investment?

Valeant has more than a fair share of issues, but there is some opportunity for investment provided that the company can continue to reduce its debt and secure a stable revenue stream moving forward. While I don't believe Valeant is there quite yet, I believe the next few quarters will be very telling for Valeant.

Investors that don't have a position in Valeant would be better served with other options on the market that will provide better returns.

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