



## Can Joe Papa Make Valeant Pharmaceuticals Intl Inc. a High Flyer Again?

### Description

**Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) has soared over 50% over the last three months as the company's new CEO Joseph Papa seems to be bringing the controversial company back on the right track.

When hearing the name Valeant, most investors probably cringe because they remember the huge scandal which resulted in the stock losing over 90% of its value. Many mutual funds and institutional investors owned the stock, so investors may still be traumatized by the downfall of the once high-flying greed-fest that was Valeant.

One general rule I follow is that if there are any signs of fraud or accounting irregularities, I'm usually out of the stock, even if shares are trading at a discount to the underlying assets. Of course, you could miss out on a huge rebound because after shady activity is reported at a company, shares have probably already plunged. But it's better to be safe than sorry when dealing with a fiasco surrounding a company, and if you followed such a rule as a Valeant investor, you could have saved yourself from a great deal of pain.

A company's reputation is extremely important, and there's no doubt that Valeant's reputation has been permanently tarnished by the events that happened under the previous management team; however, with new leaders and a strategy to get the company back on track, is the company worth a second look?

### **This new Valeant appears to be investable**

The dust appears to have settled, and Mr. Papa's new strategy could transform Valeant into a legitimate pharmaceutical company once its balance sheet is repaired. The company will still be on damage control over the next year or two, but it looks like its sale of non-core assets is going smoothly.

### **Eliminating debt to make Valeant's balance sheet great again**

Cutting down the massive US\$30 billion worth of debt may seem like a daunting task, but Mr. Papa made it clear that it's not his intent to eliminate all of the debt. He stated that the goal would be to have

the debt “in the range of US\$15 billion to US\$20 billion.”

How many companies are completely debt free? Not many; even cash-rich businesses carry debt. When you consider Mr. Papa’s debt-reduction goal, it doesn’t seem like he needs to pull off a miracle after all. Valeant could easily eliminate wipe out US\$10 billion of debt in a hurry, but Mr. Papa doesn’t appear to be in a rush. He wants to get a fair deal on the sale of non-core assets, and I believe this is a great strategy to get Valeant out of the gutter.

Approximately US\$5 billion in debt obligations will become due in February 2018, so there’s pressure, but Mr. Papa isn’t going to dump non-core assets at gigantic discounts. He wants a good deal, and I believe he’s going to make many in the coming months.

More recently, Valeant sold iNova to raise US\$930 million. The deal will eliminate approximately US\$175 million worth of revenue for the company. Short-term losses are expected as the company continues its uphill battle to make Valeant a sustainable long-term play.

I think Valeant is one of the more promising turnaround stories today. Aggressive contrarian investors should consider adding a small position today as the company continues its debt-reduction efforts.

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