Why Is Valeant Pharmaceuticals Intl Inc. up 30% Since June 1?

Description

Day by day, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) attempts to claw its way out of ruin, slowly climbing from the gutter it was in a few months ago. Since the middle of April, when shares reached $11.50 per share, they've been consistently rising. And since June 1, shares are up 30%.

There is a multitude of reasons for this, not least of which is that management has been prioritizing the repayment of its debt. As you might recall, it has tens of billions of dollars in debt due to its aggressive acquisition strategy under previous management. The company's belief was that it could borrow large chunks of cash to buy companies and then increase the price of drugs to the point that the earnings would more than cover the debt payments.

Unfortunately for the company, it came under fire for doing this, so it was forced to keep the cost of drugs lower than its initial projections mandated. That put the company in dire straits. In 2020, it has US$5.8 billion due and over US$10.5 billion by 2022. So, as you can imagine, investors and debtors alike were particularly concerned about whether or not the company would be able to survive.

Since then, new management has taken over, and CEO Joseph Papa has focused on repaying that debt, even if it means selling non-core assets. Its strategy is to pay back US$5 billion in debt by February 2018, and it's well on its way. The recent announcement was that it had put US$811 million toward senior notes, saying that "with this transaction, all mandatory amortization has been paid through 2019."

However, there are other bits of news that are also pushing shares higher.

One is that John Paulson, once a world-renowned hedge fund manager, loaded up on further shares of Valeant, adding 2.72 million shares. With that purchase, his firm now owns 6.3% of outstandingshares. Paulson is known for having made a ridiculous amount of money during the Financial Crisis,but in recent years, he has had a hard time delivering similar returns. Further, Paulson's investment demonstrates that, to some extent, Valeant is reclaiming its status as a hedge fund hotel. If morehedge funds start loading up, the company could really start rising.

The final bit of news comes from Evercore ISI analyst Umer Raffat. According to him, he heard management say the following at a broker meeting: "I've been seeing some flack about this in the investment community, it's like we've said, equity and equity-linked type securities are on the table." This means that management might look to do a debt-to-equity swap, converting chunks of its debt into shares of the company.

This has both positives and negatives. The negative is that it dilutes current shareholders, reducing earnings per share. The positive is that it reduces the company's overall debt burden, which makes interest payments smaller and puts the company in a better position to execute its strategies. The debt-to-equity swap is still only a rumour, but if it were to happen, I believe it'd be a big positive for the company if it was a sizeable enough chunk of debt.

Ultimately, the company is a work in progress and definitely carries risk. If it is able to manage its debt and get more of it off the books, shares will continue to rise. However, as we get closer to those 2020 and 2022 debt walls, the pain could start again. With shares up so much, I'd be hesitant to buy; however, if this company starts executing more efficiently, shares will move higher.

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