# Valeant Pharmaceuticals Intl Inc.: Is it Comeback Time?

## Description

If there's one thing about **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) that continues to impress me with each passing week, it's the tenacity of the company to keep its word and press on with what seems like an insurmountable mountain of debt and business issues.



### The old Valeant

Valeant was once the darling of the market, with a market cap that exceeded the big banks and a stock price that was north of $200. As investors in the stock recall all too clearly, Valeant came crashing down as a faulty business model and questionable practices all took a toll on the stock, which lost over 90% of its value.

Valeant's business model at that time was simple; use cheap loans to finance acquisitions of other drug companies that had drugs on the market or were set to release those drugs to the market. Either way, Valeant saw potential in those drugs; after purchasing them, the company raised prices before moving on to the next company and getting more loans.

Those loans eventually come due. Valeant was ultimately left with over US$30 billion in debt, a business model that needed to be revamped, and some shuffling of management.

### The new Valeant

When Valeant brought in CEO Joseph Papa, he made something clear: Valeant was going to be focusing on debt reduction, not debt elimination. Valeant was still going to be carrying debt, just not the staggering amounts the company had in the past. Papa noted that Valeant would still carry some debt, more specifically in the US$15-20 billion range.

Debt targets were established and the current target is a US$5 billion reduction by February of next year. To reach that target, Valeant has stated on more than one occasion that non-core assets of the company would be open for sale. Earlier this year, Valeant did just that, raising $2.1 billion from the sale of a cancer treatment drug, of which US$811 million was applied to the debt this past week.

Last month, Valeant announced another sale, for the iNova subsidiary, reportedly worth $930 million. This too was applied largely in part to paying down Valeant's debt.

And this week, another announcement came from Valeant, that its Obagi medical Products business was being sold for $190 million in cash, which will once again be used to pay down the company's massive debt.

**Is it comeback time?**

While the recent asset sales are encouraging, they come with the caveat of lost earnings. As Valeant sells its assets for a one-time gain in reducing the overall debt, the future revenues that those assets would have provided are lost.

That's not to say there aren't positives to take away from Valeant's recent efforts. The latest US$811 million payment came with an announcement from Valeant that the company had paid all mandatory amortization through 2019.

Valeant is also beginning to reappear as an option for hedge fund investors. John Paulson recently added 2.72 million shares, bringing his firm's take to 6.3% of outstanding shares. A renewed interest in Valeant, coupled with a continued effort by management to get debt under control, could fuel a resurgence in the stock, which is already up over 11% year to date and over 80% in the past three months.



Valeant still carries a significant amount of risk, but that risk is leveling with each passing deal and debt payment. Valeant's efforts to meet its 2019 debt obligations are encouraging, but the company still has US$5.8 billion due in 2020 and nearly twice that amount maturing two years later in 2022.

Additional deals and a revamped business model are both needed before Valeant can be seen as a viable investment opportunity. At the moment, there are better opportunities for investors that carry less risk than Valeant.

**CATEGORY**

1. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

**Category**

1. Investing

**Tags**

1. Editor's Choice

**Date**
2025/07/28
**Date Created**
2017/07/20
**Author**
dafxentiou