



## Why an Investment in Valeant Pharmaceuticals Intl Inc. Needs to Be Long Term

### Description

A lot of ado has been made about the impressive debt-repayment initiatives put in place by **Valeant Pharmaceuticals Intl Inc.'s** (TSX:VRX)(NYSE:VRX) management team, headquartered by CEO Joseph Papa. The once-shining example of a pharmaceutical growth success has turned sour, and investors bearish on the company's ability to service its massive debt load have led many growth-oriented investors to look elsewhere.

Valeant's management team certainly has their work cut out for them. In what will need to be a multi-pronged attack, the company must simultaneously grow, while chopping off pieces of the company and selling them off to pay down debt.

Obviously, a debt-reduction strategy does not bode well for growth, and the reality of trying to do both at the same time may seem extremely difficult, bordering on ridiculous, to many investors. That said, while a drop in revenue can be expected, with the company's management team laser-focused on profitability, I believe significant room exists for management to continue to focus on growing Valeant's bottom line, despite losing revenue, given the fact that Mr. Papa inherited a complete disaster with a significant amount of room to trim the fat and make the company a lean, mean profitability machine.

Most analysts expect Valeant's \$5 billion debt-reduction target of early 2018 is reachable. The company is closer to the target after recent divestiture announcements during the most recent quarter. Assuming the company will be able to meet its debt-reduction target, the looming debt maturities for the company's bonds will not come into play until 2020, giving Mr. Papa and his team significant latitude to put in place growth strategies (as well as continued cost-cutting strategies) to organically grow free cash flow in a bid to reinvest earnings back into the company's pipeline of drugs — one which looks to be more promising than some analysts indicated last year.

One option that remains on the table for Valeant's management team is to raise equity to pay down a significant portion of the pending debt maturities coming due within the next 10 years; however, due to the fact that the current share price is so severely depressed, I would not expect any such issuances for some time — at least until the management team can show substantial, sustained bottom-line growth.

### **Bottom line**

As stated in the company's most recent earnings call by CEO Joseph Papa, the turnaround at Valeant will "not happen overnight," and investors betting on a turnaround will have to wait some time to reap the profits of their investment. That said, a bold investment at what may be considered a very low valuation for a company with the ability to churn out significant free cash flow over time may just work out in the long run.

Stay Foolish, my friends.

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### **Author**

chrismacdonald

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