3 Reasons You Should Be Wary of Valeant Pharmaceuticals Intl Inc.

Description

It has been a volatile year for **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) stock as it has dropped 6.6% as of the end of trading on August 16. The Quebec-based multinational develops, manufactures, and markets pharmaceutical products. The share price has dropped 43% year over year as it has felt the pains from the 2015-2016 drug hike and specialty pharmacy controversies.

Though the company has stabilized somewhat since this precipitous drop, investors should still exercise caution if they are thinking of adding it to their portfolios. Let's look at some reasons why.

The pharmaceutical industry is in the crosshairs of government

Controversies about high drug prices have affected other players in the pharmaceutical industry. Access to affordable pharmaceuticals has exploded into a major issue in North America. In 2016, the House of Commons standing committee recommended that the government pursue a universal prescription-drug program. In April, the Liberal government announced they would provide free prescription medication for everyone 24 and under.

In the United States, the topic is even more heated. Critiques of high drug costs played a major part for candidates of both parties in the 2016 election. Most recently, President Trump scolded the high drug prices of **Merck & Co., Inc.** in response to the CEO departing his advisory team, driving the stock lower for the week. This is not a partisan issue, with many Democratic voters expressing dissatisfaction with the high cost of prescription drugs. It is only a matter of time for this political demand to be met by politicians and parties seeking power.

The company is still in recovery mode

Valeant released its second-quarter results on August 8. Revenues fell 8% to $2.23 billion compared to Q2 2016 — a decline of $187 million. There were decreases in prices and volume in the U.S. Diversified Products segment. The company posted a net loss of $38 million compared to $302 million in the second quarter of 2016. It reported an acceleration to its debt-repayment plan, as it is currently selling numerous assets to pay down $5 billion in debt before February 2018.

A shaky market

Markets in the United States, Europe, and Canada suffered varying declines on August 16. Geopolitical tensions with North Korea in previous weeks seemed to dissipate, but internal strife in the American government is starting to make investors more nervous. There are now significant tensions between the executive and other branches of the U.S. government, calling into question the legislative promises that gave birth to the "Trump Trade." If the crisis continues to worsen, and the pro-growth policies that were pitched get put on the back burner, the markets could experience a period of volatility on an international level.

A company in the midst of a difficult recovery is not an ideal buy during this period. Investors should instead be looking to mitigate risk in their portfolios.

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