Investing in Valeant Pharmaceuticals Intl Inc. Requires Immense Patience

Description

In a market environment like we have now, where it really only looks like things are going up and to the right, it can be difficult to have patience.

However, for investors that have their eye on **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX), patience is going to be everything. This company still has a long way to go before it achieves a stock price like it once had.

The problem with Valeant comes down to its debt. Management has been fighting aggressively to try to get Valeant's debt under control. Valeant's original business model of buying products and then hiking the price is no longer an acceptable approach.

So, Valeant started selling assets left and right. Management put in place a strategy to pay down US$5 billion by February 2018. It has already paid back more than US$4.8 billion, and it is expected to surpass the original US$5 billion goal.

Nevertheless, Valeant still sits on a lot of debt, which concerns people. However, there is a bright side to its debt. On August 15, Valeant redeemed the remaining US$500 million owed on its outstanding 6.75% senior notes due 2018.

This point is important because it gives Valeant runway. Between now and 2020, it has no debt maturation. In 2020, Valeant will have to pay US$5.8 billion with an additional US$10.5 billion due by 2022. While the future remains quite dire, there's time, and that's what management has been fighting for.

In its Q2 2016 results, a few things jumped out at me that make me excited. The first is that Bausch+Lomb/International had revenue of US$1.24 billion, which was up 6% from Q2 2016.

And Salix, which was one of the company's last acquisitions, had 16% growth in revenue. This actually prevented a drop in revenue in Valeant's Branded Rx division, which had US$636 million in revenue, basically unchanged.

The full-year 2017 revenue guidance has remained relatively consistent. Originally, management projected US$8.9-9.1 billion in revenue, but that dropped to US$8.7-8.9 billion because of the US$811 million sale of Dendreon Pharmaceuticals LLC.

But that demonstrates the real problem here, right? Every time the company makes a sale, it loses revenue, cash flow, and potential earnings. And with so much debt on the horizon, how can Valeant possibly hope to pay debt if divisions are continuously sold? It becomes a race between the total debt and how much selling can occur.

Ideally, the company will find success with its pipeline to make up for these sales.

One option is the psoriasis drug Siliq, which is just beginning to ramp up. Analysts at Credit Suisse suggested this could be a US$600-million-a-year business for Valeant at full ramp-up.

An analyst from **Wells Fargo**, though, suggested that it might only be US$250 million. It is shown to be more effective than other competitors, but the marketing dollars that others are putting toward their products far surpass what Valeant is investing.

All told, the company expects to see over US$100 million in revenue thanks to these new product launches. That's going to be important, and I hope that 2018 and 2019 will bring even greater launches. If not, the debt will become a problem again.

If you want to buy, that's not a bad idea. Just understand that you're buying with a long-term mentality and that the investment thesis could wind up exploding on you.

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