Valeant Pharmaceuticals Intl Inc.'s Q3 Results Boosted by Non-Operating Items

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) released its third-quarter results today. Revenue of $2.2 billion was down more than 10% from the $2.4 billion that the company posted in the prior year. Despite the decline in revenue, the pharmaceutical company was able to post a profit of $1.3 billion compared to a $1.2 billion loss a year ago.

The earnings release comes on the heels of the company's announcement to sell its subsidiary, Sprout Pharmaceuticals, back to the previous owners. The Addyi drug, touted as the "female Viagra" pill when originally purchased, sent Valeant's stock crashing after investors discovered the risks associated with it.

Let's take a close look to see if the company is a buy after the quarterly results and the news of the sale.

Impairment continues to plague the company's financials

Goodwill and asset impairments totaled $718 million this quarter and were actually down from the $1.2 billion that Valeant wrote down a year ago. Although the write-downs are technically less than the prior year and help the year-over-year comparisons, the problem is that at $718 million, that is still nearly a third of the company's sales and more than cost of goods sold.

How did the company manage to turn a profit?

Valeant added $238 million from acquisition-related consideration and $325 million in other income that was primarily a result of the sale of its iNova Pharmaceuticals business. These items helped to put the company's operating income into the black; otherwise, Valeant would have posted an operating loss of $525 million.

The company also recorded a recovery of income taxes of $1.7 billion, which was the main reason that Valeant saw any profit, as the company's loss before taxes was $400 million.

Debt reduction surpassed initial targets

As of the earnings release, the company announced that it had reduced its debt by $6 billion since the end of Q1 in 2016. The interest expense was $459 million this quarter and down more than 2% from a year ago.

Although the company has over $27 billion in debt outstanding, only $923 million is due before the end of the year and only another $2 million is due within the next two years. It isn't until 2020 that the company will start to see significant amounts of debt come due. However, investors should still expect more from the company, as the debt levels are still high, despite the reduction.

Should investors consider Valeant?

The company's financials are struggling with no growth in sales and profits being propped up by non-operating line items. Although Valeant claims that the sale of Sprout will "reduce complexity" of its operations, it's hard to see how the company will achieve any growth or improve its bottom line in the long term.

Valeant is full of red flags for investors. The company is not a good value buy and presents little (if any) hope for future growth. It made a bad gamble on a high-risk drug that failed to pay off, and high-debt loads make it difficult for the company to take on growth opportunities that may come up in the future.

In the short term, speculators could certainly profit from the volatility that we've seen in Valeant's stock, but it is not a suitable investment for the long term.

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