Valeant Pharmaceuticals Intl Inc. Gives Back Controversial New Drug

Description

In 2015, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) purchased a new drug called Addyi, which is marketed as the female Viagra. The libido-enhancing drug was the last major acquisition by Valeant before the company's flawed business model started crumbling. The drug was purchased for nearly US$1 billion.

Addyi failed to provide the kind of bottom-line impact that Valeant had hoped for. Insurers failed to adequately cover the drug, and, as a result, the drug received little attention, leading to Valeant shuttering the sales force for the new drug six months after the acquisition.

The lack of demand for Addyi was expected, considering that the drug carried the strictest warning that the FDA could offer and that the price of a 30-day supply of Addyi cost upwards of US$800.

These were all factors in Valeant effectively dropping the drug this month and practically giving it away this week … to the company that it was purchased from initially.

Under the terms of the agreement announced this week, Valeant will offload the Sprout Pharmaceuticals subsidiary to a buyer linked with the former shareholders of Sprout in exchange for 6% royalties on all sales of Addyi commencing 18 months from the sale agreement.

Valeant will also provide the purchaser a US$25 million to fund initial operations, and the deal is expected to close before the end of the year.

Commenting on the transaction, Valeant CEO Joseph Papa noted, "Returning Sprout to it former owners will enable us to further streamline our portfolio and reduce complexity in our business."

Why this deal matters

Valeant has been selling non-core assets to raise funds to pay down a mountain of debt that currently stands at US$26 billion. Valeant's former flawed business model consisted of using cheap loans to acquire drugs such as Addyi, then sharply increasing the price of that drug before securing another cheap loan and moving on to another target.

This allowed Valeant to grow incredibly quickly, and the company even surpassed some of Canada's big banks by market cap briefly before the unsustainable business model came crashing down, leaving Valeant with a massive amount of debt.

Given the lacklustre sales and lack of a sales force, offloading Addyi for practically nothing lets Valeant focus on its core offerings, while letting someone else attempt to sell the controversial drug.

The fact that Valeant will receive royalties once Sprout's former owners begin to sell Addyi is icing on the cake, but industry experts are skeptical that the drug will be successful even in the former owners' possession.

Another key point is that under the terms of the original agreement, Valeant was required to split profits of Addyi with the former owners. This deal now effectively removes that condition.

Is Valeant a good investment?

Valeant has made non-asset sales a key component of the company's turnaround efforts. The company has noted in the past that the main objective is not to be completely debt free, but rather to get debt down to a manageable level, which Valeant has said is around US$15 billion.

Valeant has already completed several non-core asset sales over the past year that have reduced total debt by several billion, but it is still far from having a sustainable balance sheet. Valeant's management has done an incredible job at commencing that turnaround, but completing that turnaround and becoming a viable investment option is still likely several years out.

In my opinion, Valeant remains a far too risky investment option. There are far better investments on the market that are less risky and will provide better returns over investing in Valeant.

CATEGORY

1. Investing

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

Date
2025/09/28
Date Created
2017/11/14
Author
dafxentiou