



Valeant Pharmaceuticals Intl Inc. Is on the Path to Recovery

Description

Valeant Pharmaceuticals Intl Inc.'s (TSX:VRX)(NYSE:VRX) shares surged by 17% on November 7, following the release of a better-than-expected quarterly profit. The pharmaceutical company's shares had been depressed for two years after accusations of fraud in 2015.

Valeant returns to profit

A strong performance in Valeant's eye care division Bausch & Lomb drove the company's third-quarter profit.

Net income attributable to Valeant came at US\$1.30 billion, or US\$3.69 per share, in 2017 third quarter compared with a loss of US\$1.22 billion, or US\$3.49 per share, a year ago. The reported quarter was boosted by a tax gain of about US\$1.4 billion.

Excluding one-off items, the drug maker earned US\$1.04 per share, far above analysts' average estimate of US\$0.88 per share.

Total revenue fell 10.5% to US\$2.22 billion mostly due to a decrease in volumes in its U.S. diversified products and branded businesses. This loss in revenue is mainly attributable to the sale of several divisions to reduce the company's debt. However, this beats analysts' estimates of US\$2.15 billion. Valeant saw a 6% organic revenue growth over the quarter at both its Bausch & Lomb and its Salix division, which makes its GI drugs.

The Quebec-based company maintained its full-year adjusted EBIDTA forecast of US\$3.60-3.75 billion.

On the plus side, the company has had positive outcomes or dismissals in 21 litigations and investigations since last quarter's post-earnings conference call.

Valeant, however, continues to face a multitude of lawsuits, including one filed by its former boss, and is subject to investigations in the United States about its policies surrounding the price of certain drugs.

Debt reduction and asset sales

Since CEO Joseph Papa replaced Mike Pearson in April 2016, he has been working to restructure the company and to bring it back to financial health, in an attempt to regain investors' confidence after a series of investigations related to Valeant's accounting and pricing practices hit its shares.

Mr. Papa was [faced with many challenges](#), but one of the most important is, without a doubt, the reduction of the debt pile left by its predecessor, which amounted to more than US\$30 billion.

Since the arrival of the new CEO, Valeant has been able to cut down its total debt by US\$6 billion by selling assets, going beyond its promise to reduce its debt by US\$5 billion by February.

Valeant's total long-term debt, net of unamortized discounts and issuance costs, has been cut by 11% to US\$27.14 billion. No long-term debt comes to maturity until 2020.

A day before its 2017 Q3 results release, Valeant announced that it has signed a deal to [sell its Sprout Pharmaceuticals](#) subsidiary and its female libido-pill Addyi to the company's former owners.

In exchange, Valeant will receive a 6% royalty on sales of Addyi starting 18 months from the signing of the sale agreement. This agreement also ends a legal dispute between Sprout's former owners and Valeant.

The sale of Sprout comes two years after buying the company for US\$1 billion and follows disappointing sales of Addyi.

This sale is part of the company's strategy to streamline its portfolio and reduce the complexity of its business by focusing on its core businesses, including eye care, gastroenterology, and dermatology.

The pharmaceutical company does not believe it needs to sell other assets, but it plans to evaluate potential bids for its non-core business if opportunities arise.

Valeant's stock is undervalued

Valeant is approaching the halfway mark in its turnaround plan. While strong progress has been made by the company during the last year by reducing its debt and by resolving many legal disputes, there is still work to do to complete this turnaround. Restructuring a company in financial distress can take many years, as steps have to be taken gradually.

However, this distress offers an opportunity for investors who are not afraid to take risks. Valeant's stock is very cheap right now and offers growth potential for those who are patient. I don't expect the share price to rise a lot in the next 12 months, but I think it may be the case once Valeant's turnaround plan is completed.

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