Valeant Pharmaceuticals Intl Inc. Is up! Time to Buy?

Description

There are few companies on the market today with a past as storied as **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX). The pharmaceuticals behemoth was once considered the darling of the market, with a market cap that not only rivaled but surpassed several of Canada's big banks.

That incredible growth came to a screeching halt when Valeant's questionable business practices and mounting debt came into focus, which drove the stock down over 90% and left investors with massive losses.

Valeant was left with a +US$30 billion mountain of debt, a flawed business model, and a myriad of problems ranging from flawed accounting practices to questionable distributor agreements.

Over the past year, Valeant has been addressing those issues and has impressively lightened its debt load thanks to a series of non-core asset sales and cost-cutting initiatives. Valeant has noted over the past year that both 2017 and 2018 would be difficult years as the company rebuilds and tackles its problems.

How is Valeant now?

Most pundits are beginning to take the view that Valeant has bottomed out and has started to ascend again. While the company will not reach the level it had several years ago, there is an upwards trajectory for the company, provided it can meet debt obligations and have a steady (and reliable) revenue stream.

Year to date, Valeant's stock has increased 30%, and looking just at the final six months of 2017, Valeant has appreciated by over 50%.

While that alone is not reason enough to declare that Valeant's problems are over, there are several factors that will likely lead to some growth in the future.

First is the fact that Valeant has several drugs in the pipeline that could provide a boost to revenue over the course of several years. One example of this is Vyzulta, which is a drug for treating certain types of glaucoma; it was approved by the FDA recently. Vyzulta is estimated to provide over US$170 million in sales within the next four years.

Another Valeant-owned drug, Luminesse, which is for the treatment of ocular redness, is expected to have a final decision from the FDA before December 27, with sales estimates for that drug coming in lower at US$38 million.

The second point worth noting is Valeant’s recent quarterly results. Last month, Valeant reported on activities in the third fiscal of 2017, which continued a trend of steady improvements witnessed over the past few quarters.

While Valeant reported revenues of $2,219 million and GAAP earnings of $3.69 per share in the quarter, the real progress was made around debt reduction.

Since the first quarter of 2016, Valeant has impressively reduced its total debt by US$6 billion, exceeding the US$5 billion target previously set for February 2018. During that same time, the company has sold off assets worth US$3.8 billion.

Even more impressive is the work completed on refinancing Valeant’s debt. Since March of this year, Valeant has reduced its payments through 2020 from US$13.5 billion to just US$2.9 billion.

Is Valeant a good investment?

There’s no denying that Valeant has improved considerably over the past year. The management team at the company has been doing all the right things, and given the turnaround plan in place, the expectation is that Valeant will resume growing sometime within the next two years.

This may give a hint of opportunity to some investors, but given the company’s history and long, volatile path to growth, most investors would be better suited to investing in other growth opportunities. Those that are already invested in Valeant would be best served to wait out the long path to growth.

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