New Incentive Program at Valeant Pharmaceuticals Intl Inc. Signals a New Culture That Investors Can Stand by

Description

In a new filing that was released yesterday, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) made changes to its incentive program in an effort to align it more closely with pharmaceutical industry practices and to take into consideration the feedback of investors.

Essentially, the CEO's bonus will be based not only on the stock price, but on total shareholder return and on return on tangible capital, thereby aligning not only with the stock price but also with real value creation.

As per the filing, "This approach better aligns Mr. Papa and Mr. Herendeen's long-term compensation with the senior executive team, provides strong retentive value, and takes into consideration the interests and feedback of our shareholders."

The initial bonus, which was cancelled, was set to grant the CEO a minimum of 933,416 shares if the stock price hit US$150 per share within four years, and if the stock price hit US$270 per share, he would have been granted just under two million shares.

While this initial incentive is kind of aligned with shareholders, it opens the door for short-term decisions that are solely focused on making the stock price rise, potentially destroying real long-term value.

The stock is rallying 3% today, possibly off this news, which is a definite positive for shareholders, as it signals a change of culture at Valeant.

And after a few quarters of meeting or beating expectations and room to beat 2018 expectations, financials might be turning around, and patient investors could very well be rewarded a few years down the line.

A reduced R&D risk profile, the clearing of legal issues, and a strengthening of the balance sheetwould go a long way, and although the legal issues and the balance sheet are still works in progress,some progress is being noted.

And although continued high debt levels, accelerated product launches, and spending will put the pressure on results, this is short-term pain for long-term gain. The company's new lower-risk strategy will pay off if they execute as planned.

Because the core strategy is a sound one, with a focus on reducing patent risk and benefiting from the secular trend of rising demand for healthcare and healthcare-related products, as our population continues to age.

Bottom line

Make no mistake, earnings are still dropping, and the stock has been killed, taken down from levels of over $300 per share to under $20 currently — a massive slide that left many shocked and angry investors in much financial pain.

And while the company's new CEO definitely has a big task ahead of him, with 2018 being set as the year to set things up for the future, today was another good sign that has injected a little faith back into investors. Valeant might very well be on the road to a strong recovery.

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