



Why Bausch Health Companies Inc. (TSX:BHC) Is a Genius Bet for Long-Term Growth Investors

Description

Bausch Health Companies ([TSX:BHC](#))([NYSE:BHC](#)), [formerly known as Valeant Pharmaceuticals](#), has moved on from its troubled past. New CEO Joseph Papa has done an applaud-worthy job of turning the sinking ship that was Valeant into a firm that's not only capable of surviving, but one that's poised for a strong return to the growth track. But this time around, it's all about organic growth, not debt-fueled acquisitive growth with little to no consideration for R&D or solvency.

Simply put, Bausch is an entirely different company than Valeant was before its collapse. It's a legitimate pharma player with excellent stewardship, terrific assets, and an ambitious turnaround plan.

Most recently, Bausch reached a settlement with generic drug firm Teva Pharmaceuticals that will delay Xifaxan's generic launch to January 2028. This delay is a big deal for Bausch, as the gastro-focused drug is a crucial pillar of Bausch's cash flow stream with approximately \$1.2 billion in revenues (14% of overall revenues) expected for 2018 to go with robust year-over-year growth moving forward.

David Steinberg, an analyst at Jefferies, believes that the risk of bankruptcy is "off the table" following the settlement. While such commentary from a well-respected analyst is promising, there's still a considerable amount of debt on the balance sheet that's still less than ideal, so the company is by no means out of the woods just yet.

The Teva settlement will allow Bausch's management team more flexibility when it comes to investment in organic growth initiatives, however. A lesser degree of uncertainty with regards to the long-term outlook for Xifaxan's cash flow stream will allow management to pull different levers to better meet longer-term debt obligations such that the probability of further asset divestments will be lowered substantially.

Foolish takeaway

Sure, Bausch remains highly leveraged, and there's still a considerable amount of uncertainty with regards to the future success of drugs in the pipeline, but one has to give credit where credit is due.

Mr. Papa is a smooth operator, and he's turned the uninvestable "sinking ship" of a company into one that could realistically surprise and silence all the doubters.

While overall financial wiggle room may be limited compared to the likes of a peer south of the border, I think Mr. Papa's expertise is well worth the price of admission. He's a seasoned veteran when it comes to the world of pharma. He knows the ins and outs of the over-the-counter drug business, and I think it's just a matter of time before he and his team iron out all Bausch's ugly wrinkles.

A bet on Bausch is a bet on Joseph Papa. At today's levels, [I like that bet](#).

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