



Bausch Health (TSX:BHC) Blows Away Expectations Once Again

Description

Many of **Bausch Health Companies's** ([TSX:BHC](#))([NYSE:BHC](#)) latest quarters have blown away expectations, as the company [continues to fight an uphill battle toward market acceptance](#) and, dare I say, optimism for its business and its stock. The latest quarter that was released last week was no different.

But the road to market acceptance and stock price returns is understandably very difficult, as the company's history and current issues are not for the faint of heart. It is a history that includes reckless acquisitions and debt, sharp drug price increases, and investigations into accounting practices. Today, some of this still hangs over the company like a black cloud, including a still crippling debt level and a lot of legal action that is still in the courts.

Let us move past this now to focus on the future. The future has some glimmers of hope if we can just see beyond the stains of the past. Bausch Health stock is [a great contrarian stock](#).

Revenue growth looks like it's here to stay

In the most recent quarter, Bausch and Lomb/international sales (representing 53% of total revenue) increased 2.4%, and Salix sales (representing 25% of total revenue) increased almost 20%. Total revenue growth was 4%, and rising margins resulted in strong cash flow generation. This has led to continued progress in reducing the massive debt burden that acts as a limiting factor in the company's growth trajectory and as a dark cloud over Bausch Health stock.

As the only FDA-approved two-week irritable bowel syndrome (IBS) treatment, Xifaxan is a novel antibiotic therapy that provides lasting relief and is an example of the company's strong product portfolio. The drug was highlighted as one of the company's star performers in the third quarter, as Xifaxan revenue increased 10.7% sequentially to \$394 million.

A major advantage of this drug is the fact that it is a short-course treatment, whereby you take one pill every day for a period of two weeks and then just sit back and enjoy relief for a full six months. The drug works mainly in the gut to inhibit the growth of bacteria, and it is taking the IBS world by storm.

There are no generic alternatives to the drug, and it is covered by Medicare and most insurance plans.

Bausch has a goldmine of products and competencies that have been overshadowed by its dark history. With a focus on its consumer and eye-care, gastrointestinal, and dermatology franchises, Bausch Health has a fully integrated specialty pharmaceutical and branded generics business that will lead the company into a strong future, providing products to make patients' lives better.

Bausch Health raises guidance once again

Back in late 2018, management's 2019 revenue guidance was for \$8.3 to \$8.5 billion. This has been steadily increased to current guidance of \$8.475 to \$8.625 billion. At the midpoint, this represents an almost 2% increase in guidance in the last nine months. While this is not a significant increase in terms of numbers, it is significant in that the company is now experiencing revenue growth, and the company is establishing credibility and confidence that guidance can be met and even exceeded.

Declining debt levels will prop up Bausch Health stock

Debt levels remain high, but they are consistently being worked down, and, in fact, the latest quarter saw continued progress in this regard. It is slow progress, but it is progress nonetheless.

Bausch still has an excessively high level of debt, with net debt of \$23 billion at the end of the third quarter of 2019 for a debt-to-capital ratio of 89.96% and a debt-to-EBITDA ratio of 6.6 times. Both of these numbers are very high but going in the right direction. With the continued dedication of management to keep this trend going, the stock certainly has big upside.

Cash flow generated in the quarter was \$515 million amid continued margin and EBITDA improvements. While cash flow is still not enough to service the company's debt, making the stock quite high risk, it might just have a place for exposure to the upside from this Canadian healthcare stock.

Foolish bottom line

Bausch Health stock remains in the doghouse, but with steady revenue growth in its Significant Seven products continuing, the focus will shift to product pipeline and R&D, which will provide another leg up for the stock.

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