



Valeant Pharmaceuticals Intl Inc.: What Exactly Is Going On Here?

Description

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) issued a press release on Wednesday that confirmed it is seeking to extend the deadline for filing its audited financial statements. But there was something else in the press release, something not emphasized by the press.

The interest-coverage ratio

Valeant is also asking its lenders to “amend, among other things, the interest-coverage maintenance covenant.” For those of you who are unfamiliar with this metric, the interest-coverage ratio divides a company’s pre-tax profits by its interest expense. In essence, it measures how many times a company can make its interest payments in a given time period. It’s a widely used measure that helps evaluate how big a company’s debt burden is.

One of the covenants on Valeant’s debt states that this ratio must exceed 2.25 times through March 2016, at which point the minimum increases to three times. During the company’s last conference call, Valeant said this ratio was approximately 3.3 times at the end of 2015 (according to unaudited figures). The company also claimed it expects “to be in compliance with credit agreement financial maintenance covenants for full-year 2015 and throughout 2016 based on guidance.”

But now the story is very different. Valeant is looking for “additional cushion in its financial covenants.” Unfortunately, such an amendment will not come for free. Creditors reportedly will ask for some major concessions, which could easily include greater interest payments in exchange for relaxing covenants.

What exactly is going on here?

If we are to believe Valeant, then the company is simply dealing with a small accounting issue related to the now-defunct Philidor and just needs some extra time. Meanwhile, the company is just looking for some extra wiggle room in its financial covenants. But this is starting to look very fishy.

There are plenty of other things that could be going on. Perhaps there are other accounting issues. Or maybe Valeant is already in breach of a financial covenant. At this point, all we can really do is speculate, but as long as the company hasn’t filed audited statements, anything is possible.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
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