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Nothing like a bit of M&A speculation to make people forget about a possible criminal probe of your ex-CEO and ex-CFO.

Valeant is reportedly in advanced negotiations with Takeda to sell Salix, a gastrointestinal drug business acquired last year for \$11.1 billion, for as much as \$10 billion.

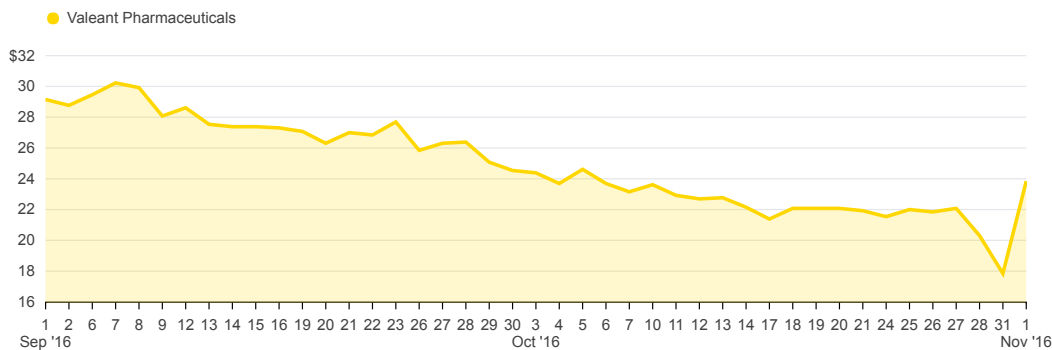
It's good news in one sense: It would give Valeant a significant and very badly needed cash infusion to pay off a chunk of its \$31 billion in debt and cushion itself against further business declines and substantial legal risk.

It is also good news in the context of Valeant's particular reality distortion field, where news that would be seen as horrible in any other situation is celebrated.

Valeant shares bounced more than 30 percent on Tuesday, but only after hitting a six-year low the day before on the news about its former executives. Hooray?

Wait, What?

Valeant shares reached a six year low on Monday, and saw their biggest jump since 1994 on Tuesday



Source: Bloomberg

Here in normal, non-distorted, reality, Valeant may be about to sell a business it bought roughly a year and a half ago at a \$1 billion loss. The haircut is even larger if you count the Salix debt Valeant assumed, or if you consider the vaporization of millions in wasted transaction and integration spending. And the deal's immediate payout may only be \$8.5 billion; the rest may come later in the form of royalties.

Salix is one of Valeant's very few sources of growth. If it must unload what's arguably its most promising portfolio to raise cash, and at a discount, then how poorly must its previously declared efforts to sell only "non-core" assets be going? It seems highly unlikely Valeant would sell Salix if it could net any kind of return on the laundry list of ancillary businesses rumored to be on the market at various points. This also suggests Valeant lacks confidence its business will organically produce enough cash to meet its debt obligations.

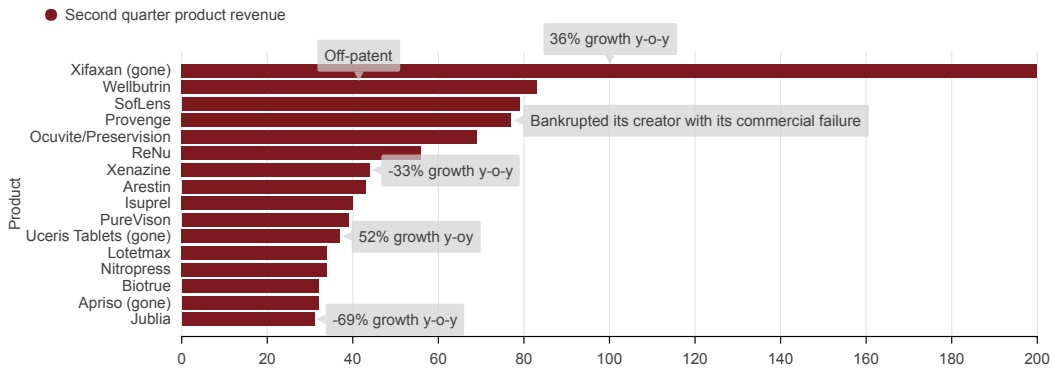
If this sale goes through, Valeant will have met its \$8 billion asset-sale target in one fell swoop. But what's left behind?

Xifaxan, the flagship drug Valeant acquired when it bought Salix, is its best-selling product by a huge margin. Most of its other assets are old, declining, tainted by scandal, or all of the above.

Wheel of Misfortune

Take away Salix's GI drugs and Valeant's lineup of products looks pretty ugly

ACRUX DDS PTY LTD. et al.
EXHIBIT 1607
IPR Petition for
U.S. Patent No. 7,214,506



Source: Bloomberg

Letting go of Salix puts a huge dent in Valeant's growth potential. Most of the company's top five businesses saw revenue drop substantially in the latest quarter. Salix's gut drugs grew 10 percent year-over-year, but the catch-all neurology/other/generics business dropped 11 percent. Dermatology sales fell 55 percent, and eye drugs fell 25 percent. Prescription trends suggest the bleeding might continue when Valeant reports third-quarter results on November 8.

Selling Salix would give Valeant much-needed cash, but it also hastens the company's transition into a business in decline, where the most realistic ambition will simply be keeping the lights on a bit longer.

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1. A few low-lights:

Antidepressant Wellbutrin is the company's second-biggest drug and grew sales in the second quarter. But there are cheaper versions available, and Valeant has hiked its price repeatedly.

Cancer vaccine Provenge is the next-biggest drug product, and sales grew 4 percent in the second quarter from a year earlier. But it's expensive to produce and possibly ineffective, with little growth potential. Its commercial failure famously bankrupted its creator, Dendreon.

Jublia, once a flagship toe drug advertised at the past two Super Bowls, is now a poster child for the collapse of Valeant's dermatology business. It had been artificially boosted by Valeant's relationship with the scandal-ridden specialty pharmacy Philidor. Sales fell 69 percent year-over-year in the second quarter.

Nitropress and Isuprel are heart drugs that saw triple-digit price increases, provoking a government investigation. They are being discounted, and generic competition is imminent.



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