Medical Xpress

Valeant shares plunge 49% on default warning, outlook

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Canadian drugmaker Valeant's share price plunged nearly 50 percent Tuesday after it warned it was at risk of a debt default and slashed its earnings forecast.

Shares dived 49.5 percent to $34.86 in afternoon trade.

Valeant, already under fire for its pricing and accounting practices, said in a securities filing Tuesday that bondholders can deliver a notice of default if the drugmaker fails to submit its annual 10-K report to the US Securities and Exchange Commission within 60 days.

The 10-K report was due Tuesday, but a filing within 60 days will "cure the default," Valeant Pharmaceuticals International said in the filing.

Valeant has delayed the 10-K report pending a review of its financial reporting and internal controls. In late February, Valeant confirmed it is the target of "several" investigations by US authorities including the SEC.

Valeant also faces a potential default on its bank credit agreement if it fails to file the annual report on time, according to its SEC filing.

"The Company is working diligently and intends to file the Form 10-K as promptly as reasonably practicable," Valeant said.

The default warning came on top of a preliminary report of a fourthquarter loss of $336.4 million and much lower projections for 2016.

Valeant now expects between $11 and $11.2 billion in total revenues in 2016, down from the prior forecast of $12.5 to $12.7 billion.

It also lowered its 2016 earnings per share forecast to between $9.50 and $10.50, from $13.25-13.75.

Chief executive Michael Pearson said the lower outlook reflected weaker growth in US dermatology, gastrointestinal, and women's health portfolios, as well as lackluster expectations for western Europe.

"We plan to work hard to improve these metrics," Pearson said. "In the meantime, we are comfortable with our current liquidity position and cash-flow generation for the rest of the year, and remain well-positioned to meet our obligations."

Activist investor Bill Ackman, whose Pershing Square hedge fund holds nine percent of Valeant, said the lower forecasts "shocked" the market and the default warning was also a source of anxiety.

"The above factors have caused investors to lose total confidence in the company as reflected by the current 44 percent decline in Valeant's stock price," Ackman said earlier Tuesday.

Ackman, who has lost an estimated $1 billion on Valeant so far in the day, said his firm plans a "much more proactive role" at the drugmaker, pointing to the appointment of Pershing vice chairman Steve Fraidlin to the Valeant board.

"We continue to believe that the value of the underlying business franchises that comprise Valeant are worth multiples of the current market price," Ackman said.

"Getting to those values, however, will require restoration of shareholder confidence in the management and governance of the company."