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Valeant's new CEO looks to restore company's tarnished reputation

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Valeant Pharmaceuticals International Inc. is aiming to rejoin the ranks of Canada's most valuable companies after a string of crises wiped out most of its market value over the past year. Its more immediate challenge is simply to avoid further decline.

Despite a long-term debt load of $31-billion (U.S.) and a tarnished reputation that has hurt its relationships with doctors, diminished its negotiating power, and sent employees scrambling for the exits, Valeant's senior leaders are once again thinking big.

Valeant needs to address its debt problem, says market expert (BNN Video)

"Being one of the largest companies in Canada is a very admirable goal," Valeant chairman and chief executive officer Joseph Papa told reporters Tuesday after addressing shareholders at a largely spiritless annual meeting. "I would absolutely like to do that. I'm a sports fan and competitive and so trying to get back to a size that was where we were before – or earnings per share for the shareholders – would be important to me."

Laval, Que.-based Valeant briefly surpassed Royal Bank of Canada as the country's biggest company by market value in July last year, riding a wave of acquisitions under former CEO Mike Pearson that pumped up its worth to $111.6-billion (Canadian), or $326.96 a share. At the time, Mr. Pearson said he believed Valeant remained a "young company" by most measures and that it was barely at the end of the first of three periods in terms of what it hoped to accomplish as an industry consolidator.

The company's roughly 90-per-cent stock drop since then has changed the game as Mr. Papa, now in charge, moves to impose a new strategy that includes selling assets and building a business based on patient care rather than testing the limits of product pricing and a continuous stream of mergers and acquisitions. It might take years to engineer a turnaround, Mr. Papa has said.

"I don't go into a room and bang my fist on the table and say, 'We've got to grow by X,'" the CEO said. "I want to make sure that the focus of this company is to focus on trying to improve patients' lives. That's a difference from where we were before."

Given the losses sustained by Valeant shareholders following allegations of fraud by a short seller and evidence of aggressive business practices at its mail-order pharmacy Philidor, Tuesday's annual meeting in Laval was an opportunity for shareholders to grill management on the reasons behind what went wrong. In the end, however, the interrogation was tame and the postmortem offered by Mr. Papa was summed up as little more than “a few mistakes” by previous Valeant leadership, much to the dismay of some attendees who were seeking more.

“It’s astounding” that Mr. Pearson was paid a $9-million severance given the mess he left behind, said Philip Harrison, a long-time shareholder. “I’m rather surprised that there wasn’t more discussion or explanation of some of things that have gone on.”

Mr. Papa said it was more important to look forward than behind. “I really look at is as, ‘What’s the opportunity for the future?’” he said, adding that a reconstructed board and new management talent speaks to some of the changes that have been made.

Others, however, believe that even though strong cash flow generation and a solid portfolio of assets will help propel the company, it won’t so easily escape the past.

Valeant is being investigated in the United States for its pricing strategies as well as its patient assistance programs. Its accounting and disclosures may also come under scrutiny, according to Toronto-based ***Veritas Investment Research***. Perhaps more importantly, it may be difficult to break the corporate climate that allowed these actions to take place, ***Veritas*** says.

“Investors need real changes” on internal controls, ***Veritas*** analyst ***Dimitry Khmelnitsky*** said in a June 8 research note. “We are encouraged by some remediation steps taken by the company, which include training executives on revenue recognition accounting, focus on unusual transactions and their business purpose, and the reduced pressure to meet key performance measures. However, we worry whether these measures will be sufficient to change a deep-rooted culture that was in place since 2008.”