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## Valeant's fine print

It's not easy keeping up with Valeant Pharmaceuticals International, Inc. (VRX on the Big Board; March 7, 2014 in *Grant's*). On Feb. 28, the company welcomed CEO J. Michael Pearson back from medical leave while disclosing a list of horrors that might have been drawn up by the short interest. Among these revelations: Management would not be meeting the Feb. 29 deadline for filing its 10-K report, and a competitor had filed a generic drug application for Xifaxan, a product that had garnered 8% of Valeant's third-quarter sales.

"With all that going on," observes colleague Evan Lorenz, "few—I bet—have taken the time to read the fine print in Valeant's various bond and credit facilities. We hadn't, until John Hempton, chief investment officer of Sydney-based Bronte Capital Management, pointed to section 4.3 of the VRX Escrow Corp. bond indenture. Some \$10.2 billion of

these securities had financed Valeant's 2015 purchase of Salix Pharmaceuticals, Ltd. Failure to file timely financial statements with the SEC constitutes an event of default, the contractual language says. Such a default could be cured by meeting a second filing deadline for audited financials, this one on April 29.

"If Valeant does not file by April 29," Lorenz relates, "holders of 25% of any of the escrow securities can demand immediate payment of principal and accrued interest. The smallest of these issues is the euro-denominated senior unsecured 4½s of May 15, 2023, of which €1.5 billion (\$1.7 billion) are outstanding at par value. As the bonds trade at 79.50 to yield 8.4%, an investor (or a group of investors) would need to buy €298 million (\$328 million) to amass the 25% stake required to demand the acceleration in payments. As of Sept. 30, Valeant had \$1.4 billion in cash, an amount that probably declined

in the wake of the costs involved with shutting Philidor Rx Services and starting a new distribution agreement with Walgreens Boots Alliance, Inc. 'Of course there are people who know this—and they only need buy 25% of one series—and can load themselves with offsetting and larger positions in the CDS and the debt,' Hempton observes by email."

You'd know it if Valeant defaulted. One of the top issuers in the institutional loan market, Hillary Clinton's favorite drug company was the most widely held obligor late last year in post-crisis-vintage collateralized loan obligations.

On Monday, Valeant promised to host a call on March 15 to discuss preliminary—not final audited—results for the fourth quarter of 2015. The clock is ticking.

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