BUSINESS: Valeant Pharmaceuticals International is a multinational specialty pharmaceutical and medical device company that develops, manufactures, and markets a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter (OTC) products, and medical devices, which are marketed directly or indirectly in over 100 countries. Formed 9/87 when Biopoly Corporation and Valeant Pharmaceuticals merged. Officers and directors own 8.2% of common stock; Ruane, Cundiff & Goldfarb, 11.4%; FMR LLC., 10.2%; T.Rowe Price, 5.8%; ValueAct, 5.5% (4/13 proxy) Chairman and CEO: J. Michael Pearson. Inc.: DE. Address: 15444 Park Victoria Dr., Irvine, CA 92618. Website: www.valeant.com.

Valeant Pharmaceuticals remains active on the acquisition front. The Canada-based drugmaker recently announced that it had entered into a definitive agreement to acquire privately-held PreCision Dermatology for $475 million in cash. The deal, which is scheduled to close in the second quarter, should provide a nice boost to Valeant's growing skin products business (acquired Solta Medical in December, 2013). Management expects the transaction to be immediately accretive to earnings upon closing.

The company is well positioned for strong top- and bottom-line gains in 2014. Based on our current model, we anticipate earnings to advance 35% this year, on revenue growth of 44%. In its last conference call, management reaffirmed its 2014 guidance ranges of $8.25-$8.75 a share, and $8.2 billion-$8.6 billion.

Growth in emerging markets should continue to be a key driver. Due to significant investment in this segment (primarily led by the acquisition of Bausch & Lomb), Valeant's revenues from emerging markets increased 50% in 2013. At present, they account for roughly 25% of the top line ($1.48 billion). Investors have been well rewarded. Valeant has clearly been one of the best-performing stocks in the large-cap pharmaceutical sector of late. Following a strong 2013 showing, in which its share price nearly doubled, the stock has already advanced 14% in 2014. The company's aggressive M&A-based growth strategy has certainly gained the confidence of Wall Street, and has helped it establish strong valuations in a wide array of attractive markets. Though ambitious, Valeant is at least heading in the right direction toward achieving its goal of becoming one of the world's top five pharmaceutical companies (in terms of market capitalization) by the end of 2016. The stock has been bumped up a notch for Timeliness to 2 (Above Average). The upgrade represents the second in as many reports. As a result, shares of Valeant are now ranked to outperform the broader market averages in the year ahead. For longer-term accounts, capital gains potential is relatively in line with the Value Line median.

Michael Ratty
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