

Long: Weight Watchers International, Inc.(WTW) Short: Valeant Pharmaceuticals International (VRX)

Robert Maltbie, money manager and chief executive of Millennium Asset Management a pair of stocks—one he recommends investors go long on and the other that they should short.

The Long:

Weight Watchers International, Inc.

Current price: \$16.69

12-month target price: \$22.50

Oprah's new favorite thing is Weight Watchers International, Inc. (WTW), like a Phoenix rising up from the ashes of an retro economy disemboweled by the latest .com, Fit bit, (FIT) or Apple Watch, (AAPL), or whatever nouveau free app de jour online creation. Weight Watchers is a revered brand from the 1960's with a system of success involving other people and a coach to be effective. Could this work?

Combine the marketing savvy of a king maker with 48 million fans with a brand that means successful team work and take it online. Old school meets neo- tech for the common good, and the upshot is tighter waistlines and lower health care costs.

Can Oprah's mere presence reverse a decaying dinosaur of a business? Can she reverse a fundamental downtrend years in the making? Of course she can! We are talking about Oprah's who's endorsement has influenced presidential elections, created brands , best sellers and self-help mega stars that have become brands themselves.

Has the move been made? The stock is up over 100 % since the

announcement last week. I strongly believe there is more upside to come. Oprah's lock up in Weight Watchers (WTW) ends in 5 years. Sure, it is a competitive field, with many other options at lower price points and offering more convenience. Also, Oprah may be past her prime, with an aging audience and no daily TV show.

Consider the following: The sheer marketing power of Oprah, albeit at half the impact. In 2011, she had over 48 million viewers, 59 of 70 books she endorsed became national bestsellers and even today her eponymous OWN is carried in over 80 million homes nationally and today, she still pulls in 300,000 viewers per night and 150,000 at day.

It is nearly a given that Weight Watchers will shortly launch a social media driven online version of the classic in person version. The average spend annually is now \$377. We assume a price point at a 50% discount for an online product or approx. \$200 annually. We are talking about a huge market in the U.S. Where over 30% of the population is clinically obese, a national tragedy of pandemic proportions! Image the savings to the national health bill.

Here is the math: if Oprah can reach 10% of her 48 million that is about 5mil new customers at \$200 per year with a 20% net margin to Weight Watchers, or about 3.33 in additional eps . Add that to street estimates of .67 for 2015 and this renders about \$4 per share in earnings. Now let's take a more conservative assumption of 5% conversion in 5 years and discount it at 12% annual rate for high risk. This will render about \$1.50 in present value eps and if we use a conservation pe of 15 x eps, we can see a \$22.50 target price in the next 12-18 months.

The Short

Valeant Pharmaceuticals International, Inc.

Current price: \$109.54

12-month target price: \$82

What a thing of beauty! The Tesla (TSLA) of financial engineering, a behemoth of a predator, on beast mode. Pining to devour the venerable stalwarts of pharma land, Valeant is the end result of every financial egress in the Harvard B-school book applied with remarkable wit and precision. Take a CEO whom is an alumnus of high end consultancy McKinsey and Company, a fellow "classmate" of Enron's Jeff Skilling. Valeant has taken it up a whole new level, gaming both financial and health care industries with dexterous aplomb. Here is the playbook: take an enormous amount of leverage and buyout branded consumer staple

core drugs that treat dermatology and ophthalmology, slash R&D, mix in a couple specialty drugs that are smaller but have limited competition, jack up prices, finance the copay via off balance sheet mail order specialty pharmacies, and then domicile it all in tax havens for corporations like Canada or Ireland, oh here is an inherent Side effect.. The American middle class will have to subsidize it all through higher insurance premiums, because it is easier for health insurers to increase rates than to sleuth price gouging.

Now, it looks like the punch bowl is going to be taken away. Valeant is leveraged to the gills and can't make any acquisitions for a while, Congress is closing off tax inversions and investigating abusive price increases on specialty treatments, investors are wondering about true organic growth, ex-off balance sheet financing and egregious pricing, and shorts are circling the wagons. In fact, on a special call to appease the vultures recently, Valeant management revealed that nearly all its organic growth was been driven by Variable Investment Entities (VIE) engaged in specialty mail order pharma sales. It appears that they have may have been created to abrogate generic, lower cost options and to propagatate increasing sales of Valeant's own higher margined branded products.

Valeant investors thinking they owned a new pharma trophy growth stock are discovering an inconvenience possibility - they own a no or slow growth, highly leveraged portfolio of overpriced and aging assortment of anti-fungal, acme healing, anti-gastrointestinal disorder, celebrity endorsed blah. They are likely to be the poster child for all that is wrong in corporate USA courtesy of Bernie and Hillary.

Assuming Valeant cannot dance their way out of this bind, after rolling back or capping same store growth, converting to a publically traded partnership to maintain tax benefits may be its best option. Valeant, much like Isolani, the shell it created to cover up Philidor, created by hedge funds, for hedge funds, as a platform for exploiting " legal" inside information for hedge funds , will be left naked and scared, Leveraged at 4 times and somehow with aforementioned engineering "showing" more than 2 times the profit margins of best in breed. It is truly a marvel of Twenty First Century financial engineering brought to us by cream of the crop hedge fund activists in the land who will know seek to defend their excesses and advise Valeant to scapegoat and disengage from the previously undisclosed VIE. Philidor.

Soon investors will see through Valeant's aggressive vendor financing, insurance coverage strategy and close off this final avenue of revenue growth and then... checkmate, this highly leveraged, slow to no growth company with a portfolio of stale remedies, will trade like a junk bond. We cap TTM ebidta at \$5.3 billion, reported as of Sept 30, 2015. Then we subtract interest costs of \$1.5 billion which provides funds from operations of approximately \$2.8 billion, priced at 10 % yield equates to our

\$82 price target.

▪

Disclosure: Maltbie's firm currently has no position in Weight Watchers International, Inc., and is short on Valeant Pharmaceuticals International Inc.

Robert Maltbie is a principal of California-based Millennium Asset Management