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Investment bank analysts stayed bullish as Valeant struggled

Dearth of 'sell' ratings before Tuesday's collapse raises conflict questions

by: David Crow in New York and Miles Johnson in London

Twenty-one of the 23 analysts who cover Valeant were telling investors to buy or hold the drug group's shares before Tuesday's massive sell-off, fuelling new doubts over whether investment banks' research is too bullish about the companies they cover.

Shares in the besieged Canadian drugmaker, tumbled by more than 50 per cent after the company raised the spectre of a default on its $30bn of debt and bungled itsmuch-reduced earnings forecasts. They fell another 10 per cent by lunchtime on Thursday.

Since last summer, the company has lurched from crisis to crisis. It has been attacked by politicians, who say it is fleecing customers with high prices, and by short sellers. It is also under investigation by US securities regulators and is struggling to produce audited 2015 results after an accounting restatement.

However, at the start of the week, only two of the 23 analysts tracked by Bloomberg were telling investors to offload the shares: ***Dimitry Khmelnitsky*** of ***Veritas***, a Canadian independent research house; and David Maris of Wells Fargo, the investment bank.

Wall Street's unflinching enthusiasm for Valeant deals a fresh blow to the credibility of "sell side" research, which came in for heavy criticism after the 2000 dotcom crash.

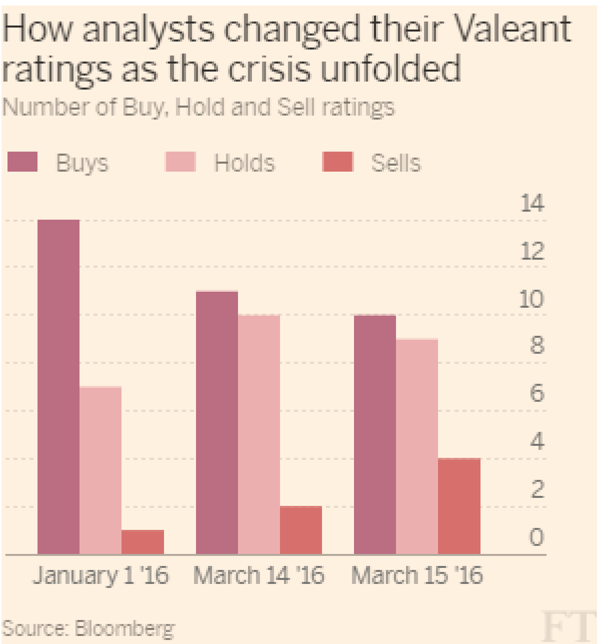
Twelve Wall Street banks paid $1.4bn to settle allegations that their analysts issued[biased research](). The settlement included provisions designed to remove the conflicts of interest between analysts charged with producing independent research and investment bankers seeking business.

But some experts believe investment bank research is still tainted by a need to gain access to management, and to win other, more lucrative lines of business such as deals advice and fundraising.

Valeant has paid $398m in total investment banking fees since 2013.

"There is an overall pressure on analysts … to wear smiley faces when they look at companies," said Erik Gordon, a professor at the University of Michigan Ross School of Business.

"The analysts who are positive get better access to management," said Mr Gordon. "They are the ones who get their questions answered on the earnings calls, and they get access to the CEO."



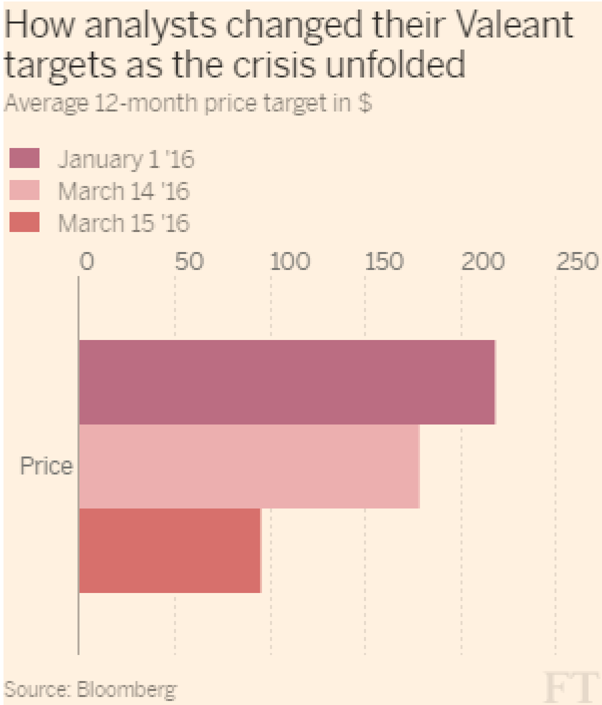
"I was on the buyside before, and I realise that these companies are stocks, investments — they are not your friends," said Mr Maris of Wells Fargo, the only analyst from an investment bank who has rated Valeant a "sell" since he started covering the stock last month.

Even as the rout in Valeant's stock took place on Tuesday, some analysts retained their "buy" rating.

UBS has a "buy" recommendation with a 12-month target price of $213 — a far cry from Wednesday night's close at $33.54 — although it placed that rating "under review" on Thursday. Barclays also urged investors to pick up shares, predicting they will trade at $135 within a year.

Still, some of the most bullish analysts on the company downgraded the stock on Wednesday.

Shibani Malhotra of Nomura lowered her rating from "buy" to "neutral" and slashed her target price from $175 to $60. User Raffat of Evercore ISI, who also had a "buy" with a target price of $200, suspended his coverage of the company. Both analysts described their calls on the company as "humbling".



One large investor in the life sciences industry said he ignored sell side analysts' recommendations, but bought their services because they were good at compiling data sets, and arranging meetings with chief executives, well-regarded doctors and scientists.

Jim Sanford, a portfolio manager for Sag Harbor Advisors who used to be a managing director at Credit Suisse, said analysts were also under pressure from large institutions to retain positive ratings, because a downgrade could spark a sell-off and lose their clients money.

"The buy side investors know to ignore the research, but it's the little guys who get hurt, and the mom and pop investors who see the headlines online," said Mr Sanford.