



[TIM SHUFELT](#)

Canadian short seller makes a killing on Valeant's stock swoon

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Short sellers take a lot of heat, particularly when someone such as Bill Ackman is on the other side of the trade, Jerome Hass says.

So when the partner at Lightwater Partners, a Toronto-based hedge-fund manager started talking about betting against Valeant, and indirectly, the famous activist investor himself, Mr. Hass heard from some of the drug company's shareholders directly. "It was certainly pointed out to me that Bill Ackman was a lot smarter than I was, and a lot richer," Mr. Hass said. "I don't dispute that, but I just disagreed on this one."

Mr. Ackman's heavy stake in Valeant has cost him billions through the company's spectacular collapse over the past six months. Mr. Hass's short position, meanwhile, has become increasingly lucrative as the stock has descended toward Tuesday's low point.

"We don't like crowded trades. And Valeant was a very crowded trade on the long side," he said.

Valeant has always had its doubters, but until mid-2015, its growth-through-acquisition strategy had worked so consistently that betting against its stock was a dangerous move.

The company became so big and its stock so dominant that index fund managers had to own it. To do otherwise would nearly ensure underperformance. "It was a Nortel-like situation," Mr. Hass said. "Institutional managers were plugging their noses and buying Valeant because they couldn't afford not to."

As long as the company had access to easy money to fuel acquisitions, its stock was like a "freight train," Mr. Hass said, and he was reluctant to step in front of it.

When the \$11-billion (U.S.) deal to purchase Salix Pharmaceuticals closed last April, however, Valeant's borrowing capacity neared its limits, Mr. Hass said. The debt-fuelled roll-up strategy was essentially over. "Gone were the days that every time they announced an acquisition, nobody cared about the details, the share price would jump." He established a short position on the stock, which is a way to profit on its decline, at about \$280 (Canadian) a share last June. But that did not prove to mark the end of the stock's momentum, which rose to nearly \$350 over the following month, surpassing Royal Bank of Canada as the single most valuable Canadian stock.

"We were sweating, for sure," Mr. Hass said. But he was confident that Valeant's shares were grossly overvalued. His thesis proved true when Valeant shares proceeded to fall more than 85 per cent, capped by Tuesday's all-consuming sell-off.

"Now the risk is that the trade becomes crowded on the short side. When that happens, it's time for us to get out."

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