Valeant Pharmaceuticals

October 30, 2015

Pershing Square Capital Management, L.P.

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Valeant Pharmaceuticals International (VRX)

VALEANT

Stock price:
$111.50

- Multinational specialty pharmaceutical company
- Leader in dermatology, ophthalmology, branded generics, and gastroenterology
- Significant presence in both developed and emerging markets
- Market cap of ~$40bn and TEV of ~$68bn
- Approximately 40 manufacturing plants worldwide
- ~18,000 employees[1]

(1): Valeant company website.

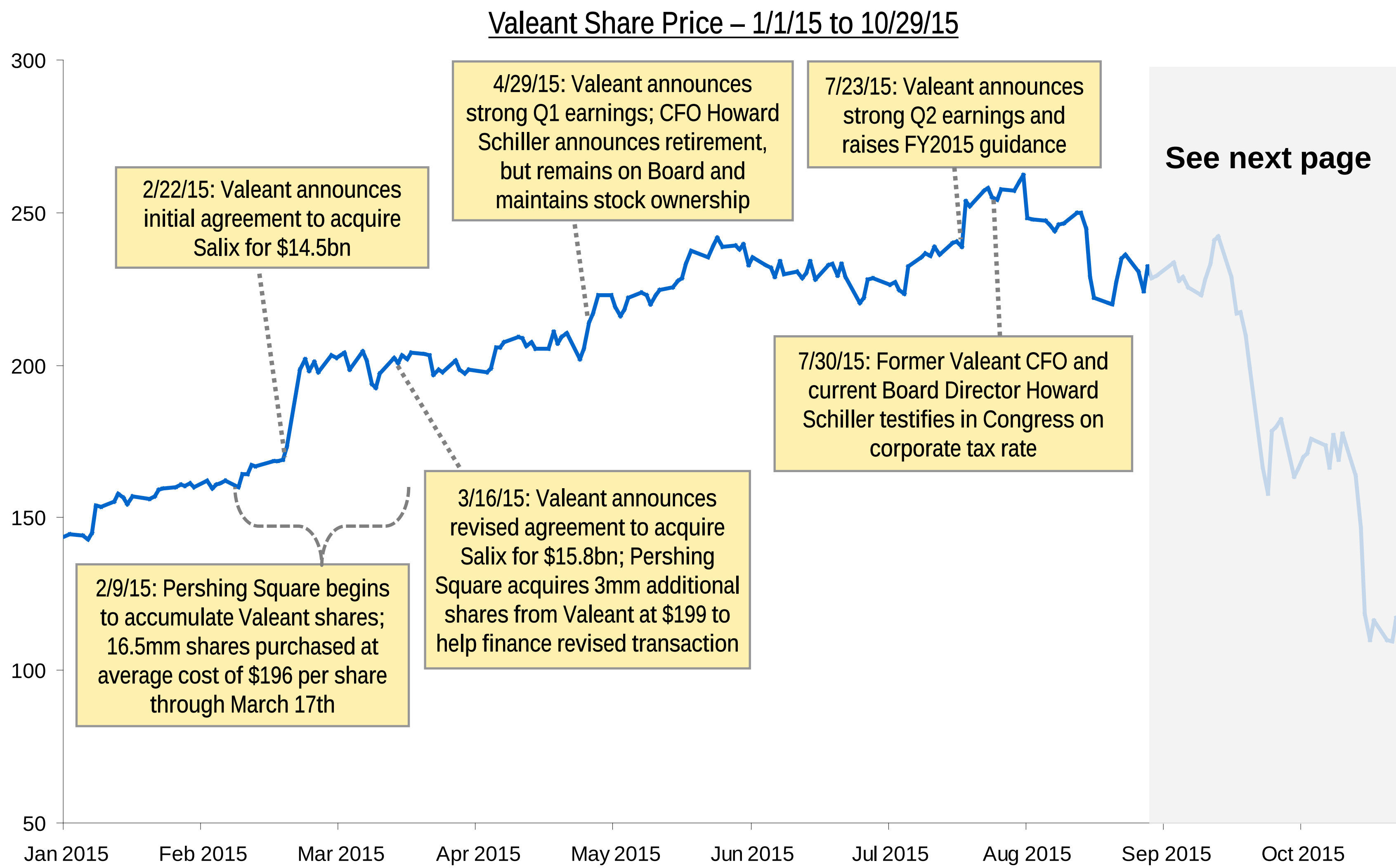
Valeant: Context on the Company

- **In February 2008, when Mike Pearson was named CEO, Valeant was a small, struggling company**
- **Pearson changed Valeant's strategy to incorporate:**
  - A durable, diverse portfolio of products in specialties where doctors are decision makers, with limited government reimbursement
  - Decentralized, efficient, nimble organizational structure
  - Return-driven capital allocation framework (M&A, high ROI R&D, buybacks)
  - Rapid growth
  - Diverse portfolio of products
  - Numerous drivers of value creation
  - Numerous acquisitions
    - Purchased distressed assets, inherited multiple Corporate Integrity Agreements
  - Utilized leverage

Valeant: Context on the Company (cont'd.)

- **Valeant's business and strategy are complicated to understand; GAAP accounting is an inadequate measure of an acquisitive company**
  - Investor base has historically consisted of sophisticated, long-term investors (Ruane Cunniff & Goldfarb, T Rowe Price, ValueAct, Lone Pine, Brave Warrior, Brahman Capital, etc.)
- **Valeant's complexity necessitates:**
  - Strong, high-integrity management
  - High level of transparency
- **Anything less than complete transparency leaves Valeant susceptible to attack**
- **Valeant's implicit compact with shareholders: in exchange for high returns, investors accept complexity so long as there is transparency**
- **Valeant has underinvested in public relations, government relations, and investor relations. This has been a very costly mistake**

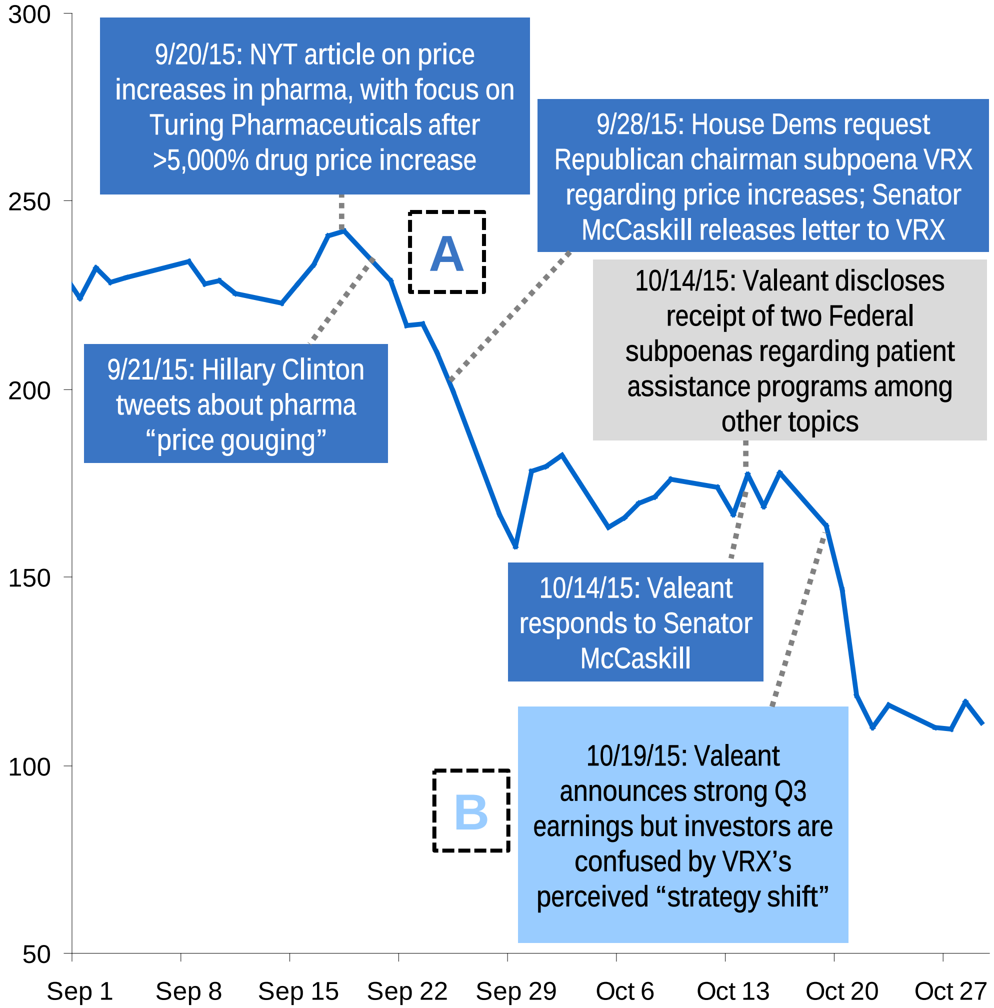
Valeant: Share Price Performance



Note: The performance of Valeant's share price is provided for illustrative purposes only and is not an indication of future returns of the Pershing Square funds.
Source: Bloomberg.

Valeant: Recent Events

Valeant Share Price – 9/1/15 to 10/29/15



Pershing Square's Perspectives on Key Topics

A **Price Increases**

- Volume is primary growth driver for ~90% of Valeant's business
- Media reports are focused on gross prices; net realized prices to manufacturer are much lower
- Drugs improve health outcomes and can reduce overall cost of healthcare; returns on investment critical to drug innovation

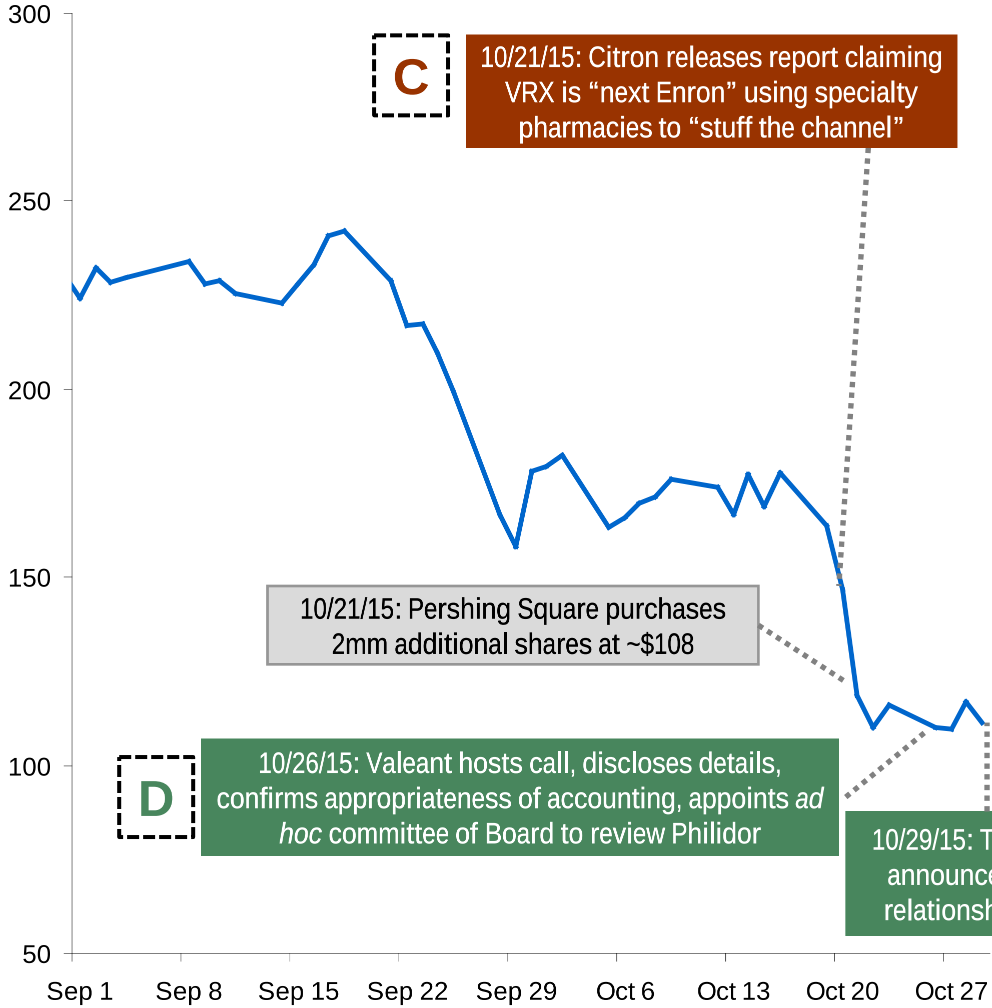
B **VRX's Perceived "Strategy Shift"**

- VRX's strategy is multi-faceted, focused on creating shareholder value, adapts with opportunities:
  - M&A: No more "price increase" deals (only 4 of ~150 historical acquisitions)
  - R&D: Increasing modestly to pursue attractive late-stage development opportunities

Note: The performance of Valeant's share price is provided for illustrative purposes only and is not an indication of future returns of the Pershing Square funds.
Source: Bloomberg.

Valeant: Recent Events (cont'd)

Valeant Share Price – 9/1/15 to 10/29/15



Pershing Square's Perspectives on Key Topics

C **Citron Report**

- Claim that VRX "stuffed the channel" and falsely recognized revenue is verifiably false
- Accounting for sales to Philidor is more conservative than accounting rules applied for sales made to "traditional" distributors

D **Specialty Pharmacies / Philidor**

- Increasingly important distribution channel for the industry
- Lack of early disclosure and details regarding VRX's relationship with Philidor created uncertainty
- Facts continue to evolve

Note: The performance of Valeant's share price is provided for illustrative purposes only and is not an indication of future returns of the Pershing Square funds.
Source: Bloomberg.

Benefits of Specialty Pharmacies

- **Why patients and doctors like specialty pharmacies:**
  - Specialty pharmacies help patients get the drug their doctor prescribed and reduce administrative burden
  - Patients receive their medication quickly by mail, sometimes before claim has been adjudicated
- **Benefits to doctors and patients have made specialty pharmacies an increasingly popular drug distribution channel**

Examples of Dermatology Rx manufacturers with specialty pharmacy relationships(1):

Allergan

NOVARTIS

PHARMADERM

Nestlé

Good Food, Good Life

GALDERMA

Committed to the future of dermatology

(1): Valeant investor presentation. October 26, 2015.

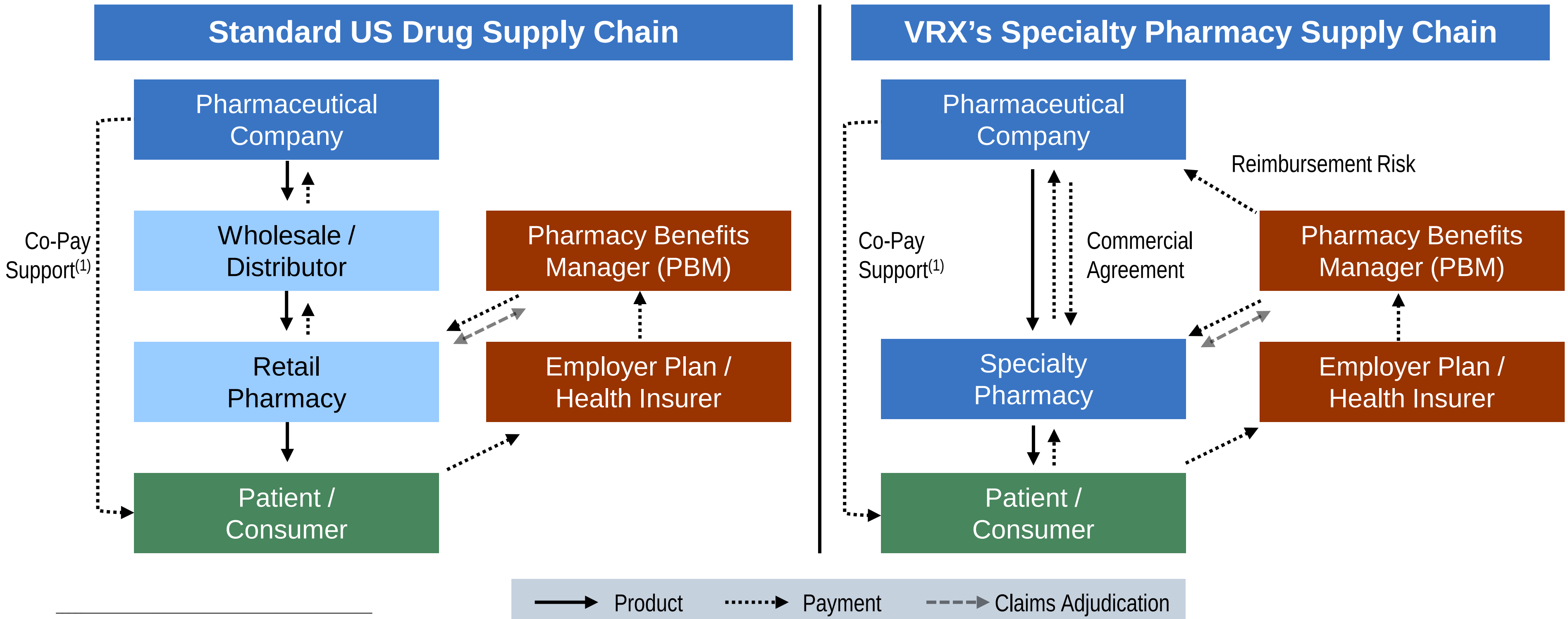
Valeant's Use of Specialty Pharmacies

- **Valeant's specialty pharmacy strategy originated from a program acquired with the acquisition of Medicis, a dermatology company**
- **Today Valeant makes certain products available through the specialty pharmacy channel – Philidor Rx has been Valeant's largest specialty pharmacy**
- **Important facts about Valeant's specialty pharmacy strategy:**
  - Valeant's drugs are available at both retail pharmacies and through Philidor
  - Philidor offers low "cash-pay" prices on drugs to patients without insurance coverage
  - Government-insured patients are not eligible for co-pay assistance
  - Philidor represented only ~1% of Valeant sales last year, but grew to ~7% of total revenue in the most recent quarter

Valeant's Specialty Pharmacy Strategy Cuts Out the Wholesaler & Improves Patient Access

- Payors/PBMs attempt to influence drug utilization to their benefit (tiered formulary co-pays, prior-authorizations, exclusion lists, etc.)
- Drug companies attempt to maintain patient access to physician-prescribed branded drugs
- Specialty pharmacies offer services to improve patient access, including drug dispensing, claims adjudication, coverage status determination, therapy monitoring/adherence, co-pay assistance, etc…

<u>Specialty pharmacies bring the manufacturer closer to the patient:</u>



Source: Wall Street research.
(1): This is explicitly prohibited for patients seeking reimbursement from any federal or state health care programs.

Valeant's Use of Specialty Pharmacies (cont'd)

Regulatory Risk:

- Valeant and Philidor operate in a highly regulated industry
- It is legal for a manufacturer to own a pharmacy and several have/do
- While Valeant consolidates Philidor for accounting purposes, Valeant has stated that they do not control Philidor
- Philidor has been accused by a former contractor and debtor of illegal activity
- Recent media reports indicate that Philidor may have engaged in fraudulent activity
  - Effective October 29th, 2015, CVS Caremark, Express Scripts and UnitedHealth/Optum announced the termination of their relationship with Philidor, comprising the vast majority of the PBM market
- Government inquiries into potential legal and regulatory violations in the pharmaceutical industry are pervasive and highly fact specific

Valeant and Philidor Rx: Corporate Timeline

2012 — 2013 — 2014 — 2015

March 2012: Medicis launches their "Alternate Fulfillment Program" (prior to the acquisition of Medicis by Valeant). The pilot is focused on Solodyn and Ziana in select states. Some current Philidor employees previously consulted for Medicis

Dec 2012: VRX acquires Medicis Pharmaceutical Corp.

Jan 2, 2013: Philidor Rx Services LLC is created in Delaware;(1) Andy Davenport is believed to be the majority shareholder.(2) A common thread amongst owners appears to be a relationship to BQ6 Media Group – a pharmaceutical consultancy which lists VRX as a client (amongst many others)

Jan 2013: VRX signs a services agreement with Philidor

Late 2013: Based on the success of the pilot program, Valeant expands its relationship with Philidor to include additional products and more states. Valeant frequently discusses it's "alternative fulfillment" program in dermatology but never explicitly mentions Philidor

Q4'2014: Philidor's business is growing rapidly; VRX recognizes the strategic nature of the Philidor commercial arrangement

Dec YTD 2014: Philidor contributes $111mm (~1%) to VRX's total sales

Dec 2014: VRX pays $100mm (incl. additional earn-outs of up to $133mm) for the right to acquire Philidor for $0 (incl. certain governance rights). Philidor remains a separate limited liability entity. KGA Fulfillment Services – a wholly-owned subsidiary of VRX – owns the option to acquire Philidor. Hogan Lovells advised VRX on the structure and Philidor diligence

2014 10-K: Valeant determines Philidor is a variable interest entity ("VIE") and begins consolidating Philidor's and its pharmacy network for accounting purposes

2015 YTD: VRX's specialty pharmacy channel comprises 7.2% of VRX's sales; Philidor is 5.9%

Legend

- Valeant
- Philidor Rx Services
- Isolani LLC
- R&O / Russell Reitz
- Other

Source: Valeant public disclosure, Medicis public disclosure, various California state court proceedings between Isolani LLC, R&O Pharmacy, Russell Reitz and Valeant.
(1): State of Delaware, Division of Corporations. File #: 5268955. (https://icis.corp.delaware.gov/Ecorp/EntitySearch/NameSearch.aspx)
(2): Based on a June 18, 2013 license application with the Pennsylvania State Board of Pharmacy. Other owners are believed to be: Matthew Davenport, David Wing, Edward John Carne III, Gregory Blaszczynski, End Game Partnership LP, David Cowen, Elizabeth Kardos, Nick (Nicholas) Spuhler, David Ostrow, Jeffrey Gottesman, Gina Milner, Fabien Forrester-Charles, Francis Jennings, Michael Ostrow, Paula and Timothy Schuler and Gretchen Sprigg Wisehart.

Philidor, R&O and Reitz: Timeline of Events

2012 | N | 2014 | Jan 2015 | Aug 2015

July 2012: R&O created as an LLC in California; receives CA license on July 11, 2013

Jan 2, 2013: Philidor Rx Services LLC is created in Delaware

Aug 2013: Philidor applies for a nonresident pharmacy license in California

May 2014: California Board of Pharmacy rejects Philidor's license application

July 2014: California Board of Pharmacy acknowledges Philidor's request for an appeal; refers the request to the state AG

Oct 2014: Isolani LLC is created for the purpose of acquiring ownership of R&O. Philidor holds an unexercised option to acquire Isolani.

Nov 2014: Isolani negotiates a purchase agreement to acquire R&O for $350,000. 10% of the consideration is paid upfront ahead of regulatory approvals. Isolani, R&O and Russell Reitz enter into a Management Services Agreement (the "MSA") transferring control of R&O's operations to Isolani – Reitz remains the "pharmacist-in-charge"

2015: R&O's sales meaningfully accelerate as Valeant (via Philidor / Isolani) begins shipping to R&O. From March 2015-July 2015, R&O made payments of $18.4 million directly to Valeant for Valeant products (75 shipments)(1)

May 2015: Reitz withholds necessary regulatory sign-off needed to execute the purchase agreement. Reitz begins confiscating checks owed to R&O (and by derivation Isolani / Philidor) breaching the terms of the MSA

July 30, 2015: Isolani counsel demands payment of withheld checks and the resignation of Reitz as pharmacist-in-charge

Aug 2015: Valeant ceases shipments to R&O

Aug 31, 2015: Reitz's lawyers notify Isolani of their decision to unilaterally terminate the purchase agreement / MSA, claiming improper use of R&O's NCPDP number, amongst other allegations. Reit'z counsel notes his clients intention to "retain any and all funds in R&O's possession"

Sep 4, 2015: VRX provides written notice to R&O demanding payment for outstanding invoices

Sep 8, 2015: Isolani initiates litigation against Russell Reitz and R&O in the Superior Court of California for breach of contract; Isolani is seeking emergency relief to protect its funds

Oct 6, 2015: R&O sues VRX, claiming Valeant and R&O are parties to a fraud perpetrated by Isolani / Philidor

Oct 29, 2015: VRX files counterclaim, detailing Reitz' knowledge of Valeant and Philidor

Legend
- Valeant
- Philidor Rx Services
- Isolani LLC
- R&O / Russell Reitz
- Other

Source: CA licensing documents and court filings in Isolani/R&O litigations.
(1) Valeant company presentation. October 26, 2015.

Recent Facts Discredit R&O's Narrative

- **R&O / Russell Reitz's lawsuit against Valeant creates the impression that R&O was not aware of Valeant's relationship with Philidor / Isolani**

R&O Pharmacy LLC Complaint for Declaratory Judgment:

On September 4, 2015, R&O received a letter from Robert Chai-Onn, Valeant's Executive Vice President, Chief Legal Officer and General Counsel. In the letter, which was the first correspondence that R&O had ever received directly from Valeant, Mr. Chai-Onn claimed that R&O, a small licensed California pharmacy, owed Valeant over $69,000,000. However, R&O has never received a single invoice from Valeant in any amount and until September 4 had never received a single demand for payment from Valeant. R&O has requested copies of the invoices, but to no avail. Indeed, it seems that Valeant has no evidence whatsoever to back up its claims.

Therefore, R&O believes that one of two things must be true:

1. Valeant and R&O are victims of a massive fraud perpetuated by third parties; or
2. Valeant is conspiring with other persons or entities to perpetuate a massive fraud against R&O and others.

Recent Facts Discredit R&O's Narrative (cont'd)

- **Email correspondence from Russell Reitz confirms that Reitz was aware of both Philidor and Valeant**

<u>Valeant's Answer to Plaintiff Complaint for Declaratory Relief:</u>

Subject: FW: R&O Pharmacy
Date: Monday, December 1, 2014 at 9:35:22 PM Eastern Standard Time
From: Carne, John
To: 'Weinberg, Herb L.'
CC: Davenport, Andy

Herb,

Let's discuss how best to move forward with the change of ownership.

JC

From: Russell Reitz [mailto:rnreitz@gmail.com]
Sent: Monday, December 01, 2014 9:14 PM
To: Carne, John
Subject: R&O Pharmacy

Hi John
The wire was received. Thank you.

We are eager to begin adjusting our service to start dispensing VRX products via Philidor Rx services. Additional part time staff to cover the expected hours are also available for your review when the need arises.

I am also ready to participate in discussing license transfer with you and Herb Weinberg and wanted to provide each of you a copy of my last correspondence from the CA Board of Pharmacy. This document from the board is their response to my change of ownership filing prior to my first meeting with you. I have not responded to their request while discussions with Philidor Rx were taking place. I am available this week to conference with you and Herb.

Thanks

Russ

Timeline of Disclosure Regarding Philidor / R&O

2012 — N — Oct 2015

2012-2015: VRX discusses their evolving "alternate fulfillment" strategy on 10 different occasions between 2012 and 2015

Sep 4, 2012: VRX discusses for the first time their newly acquired "alternate fulfillment" / mail-order strategy for dermatology

Dec 2012: VRX completes the acquisition of Medicis Pharmaceutical Corp.

Oct 20, 2014: Jefferies research analyst David Steinberg asked VRX on their Q3'2014 earnings call for the ratio of Jublia scripts written through VRX's "specialty pharmacy Philidor;" Pearson discloses that their specialty pharmacy channel is comprised of "multiple specialty pharmacies" which collectively contribute ~40% of Jublia's volume

Oct 14, 2015: A blogger tweets: "Does the word Philidor mean anything?"

Oct 19, 2015: In advance of VRX's earnings, the Southern Investigative Reporting Foundation publishes an article describing Valeant's specialty pharmacy channel strategy, bringing Philidor and R&O into the spotlight

Oct 19, 2015: VRX discusses their relationship and accounting practices with respect to Philidor, the first time VRX has discussed Philidor in detail

Oct 21, 2015: Short seller Citron Research accuses Valeant of engaging in fraud by using "phantom captive pharmacies" to engage in channel stuffing

Oct 21, 2015: VRX issues a press release in response to Citron's report, providing information on VRX's relationship with Philidor and R&O

Oct 22, 2015: A blogger writes a post critical of Valeant's specialty pharmacy strategy

Oct 22 – Present: Mainstream media begins to focus on the relationship between Valeant, Philidor, R&O, etc. Negative details begin to emerge on alleged Philidor business practices

Oct 26, 2015: VRX holds conference call to address investor concerns; certain questions remain unanswered

Oct 26, 2015: VRX's Audit and Risk Committee confirm VRX's accounting treatment of Philidor is appropriate

Oct 26, 2015: VRX announces the formation of an *ad-hoc* board committee to review VRX's relationship with Philidor

Oct 26, 2015: VRX releases its10-Q, including more detail on Philidor; Philidor accounts for 5.9% of Valeant net revenue YTD

Legend

- Valeant
- Philidor Rx Services
- R&O / Russell Reitz
- Isolani LLC
- Other

Source: Valeant SEC filings.

Healthcare Regulatory and Legal Overview

- **The healthcare industry is highly regulated**
- **All participants – manufacturers of pharmaceuticals/biologics/medical devices, doctors, pharmacies, hospitals, insurance companies – are subject to extensive federal and state legal and regulatory requirements**
- **These regulatory regimes are not always intuitive**
- **Areas of inquiry have included:**
  - Marketing practices (off-label marketing, unsubstantiated claims)
  - Manufacturing / product safety issues
  - Insurance fraud
  - Medicare fraud
  - Kickbacks
  - False claims
  - Misreporting of price information to CMS (Best Price requirements)
  - HIPAA/Patient privacy

Determination of compliance with the complex regulatory requirements is very fact specific

Healthcare Regulatory Impact (cont'd.)

10 Largest Settlements and Judgments ('91-July '12)

Company	Total Penalty	Year	Violation(s)*	Laws Violated (if known)***	Qui tam†
GlaxoSmithKline	$3.0 billion	2012	unlawful promotion; kickbacks; concealing study findings; overcharging govt health programs	FCA; FDCA	Y
Pfizer	$2.3 billion	2009	unlawful promotion; kickbacks	FCA; FDCA	Y
Abbott	$1.5 billion	2012	unlawful promotion; kickbacks	FCA; FDCA; Anti-Kickback Statute	Y
Eli Lilly	$1.4 billion	2009	unlawful promotion	FCA; FDCA	Y
Johnson & Johnson	$1.2 billion	2012	unlawful promotion		
Merck	$950 million	2011	unlawful promotion	FCA; FDCA	
TAP Pharmaceutical Products	$875 million	2001	overcharging govt health programs; kickbacks	FCA; Prescription Drug Marketing Act	Y
GlaxoSmithKline	$750 million	2010	poor manufacturing practices	FCA; FDCA	Y
Serono	$704 million	2005	unlawful promotion; kickbacks; monopoly practices	FCA	Y
Merck	$650 million	2008	overcharging govt health programs; kickbacks	FCA; Medicaid Rebate Statute	Y

- **Largest health care fraud settlement in history is $3bn**
- **Many large fine involve unlawful promotion of drugs and safety concerns**

Source: Public Citizen, Pharmaceutical Industry Criminal and Civil Penalties: An Update.

Healthcare Regulatory Impact (cont'd.)

Pharmaceutical Cos. – Aggregate Penalties ('91-July '12)

Company*	Total Financial Penalties	Percent of Total†	Number of Settlements‡
GlaxoSmithKline	$7.56 billion	25.1%	20
Pfizer	$2.96 billion	9.8%	15
Johnson & Johnson	$2.33 billion	7.7%	14
Merck***	$1.86 billion	6.2%	27
Abbott	$1.82 billion	6.0%	12
Eli Lilly	$1.71 billion	5.7%	13
Schering-Plough	$1.34 billion	4.4%	7
AstraZeneca	$954 million	3.2%	7
TAP Pharmaceutical Products	$875 million	2.9%	1
Novartis	$793 million	2.6%	12
Bristol-Myers Squibb***	$789 million	2.6%	12
Mylan	$707 million	2.3%	19
Serono	$704 million	2.3%	1
Purdue	$620 million	2.1%	2
Allergan	$600 million	2.0%	1
Daiichi Sankyo	$500 million	1.7%	3
Cephalon	$425 million	1.4%	1
Boehringer Ingelheim	$329 million	1.1%	14
Forest Laboratories	$315 million	1.0%	4
Sanofi	$313 million	1.0%	10
Other**	$1.88 billion	6.2%	108
Total	**$29.35 billion**	**97.4%**	**303**

- **Many large pharmaceutical companies have received numerous fines over the decades, with total penalties in the billions**
- **Valeant is notably absent from this list**

Source: Public Citizen, Pharmaceutical Industry Criminal and Civil Penalties: An Update.

Novartis: A Recent Case Study
Allegations

"As alleged, using the lure of kickbacks disguised as rebates, Novartis co-opted the independence of certain pharmacists and turned them into salespeople for one of its drugs."
- Manhattan U.S. Attorney Preet Bharara, April 23, 2013

- **Novartis paid kickbacks to specialty pharmacies to induce them to recommend Novartis medications and increase sales of Novartis drugs**
- **Novartis only contracted with pharmacies that represented that they would be able to convert patients to Novartis drugs**
- **The pharmacies actively tried to switch patients from competitor drugs to Novartis drugs, and the payments they received from Novartis depended on the success of these "conversion" efforts**
- **One of the pharmacies gave biased advice to encourage the use of Novartis drugs, and simultaneously understated serious, potentially life-threatening, side effects, using talking points that were approved by Novartis**

Novartis: A Recent Case Study

Timeline of Events

2011

2013

2014

2015

- Nov 2011: *qui tam* / whistleblower complaint filed under seal by former Novartis employee, initiating an investigation by DOJ
- April 2013: DOJ intervened and filed a Complaint-in-Intervention
- April 2013: Novartis said in a statement that it disputed the government's claim and would defend itself
- July 2013: Novartis discloses civil investigative demand (CID) and related details in its quarterly 6K filing and states they are cooperating with investigation
- Jan 2014: DOJ filed Amended Complaint-In-Intervention
- Jan 2014: Specialty pharmacy BioScrip reached a settlement with the Government; agreed to pay $15mm to federal and state claimants, and to cooperate in the prosecution of claims against Novartis and admit numerous facts regarding its relationship with Novartis
- August 2014: DOJ filed Second Amended Complaint-In-Intervention
- May 2015: Specialty pharmacy Accredo reached a settlement with the Government; agreed to pay $60mm to federal and state claimants, and to cooperate in the prosecution of claims against Novartis and admit numerous facts regarding its relationship with Novartis
- June 2015: Government seeks $3.35bn in treble damages and civil penalties
- Oct 27 2015: announced an agreement in principle to settle the case for $390M; payment covers all claims related to five drugs

Source: Company filings, legal filings, news reports.

Novartis: A Recent Case Study
Key Considerations

- **Manhattan U.S. Attorney Preet Bharara alleged that Novartis was a "repeat offender" as the Company was already under a 2010 CIA over kickback allegations**

- **Alleged misconduct took place over nearly a decade and involved dozens of specialty pharmacies**
  - 161k+ false claims alleged which covered $507.5mm of reimbursements by government healthcare programs
  - Volume of claims resulted in $3.35bn in damages and civil fines sought

- **Fraud created safety risk for patients**
  - At least one of the products in question was alleged to cause "serious, potentially life-threatening" side-effects and had a "black-box" warning
  - Pharmacists masquerading as objective medical advisors assured patients that their side-effects would improve with no consideration for their actual medical circumstances

Novartis: A Recent Case Study
Implications for Novartis

- **On Oct. 27, 2015, Novartis announced it has reached a settlement in principle with the DOJ in the amount of $390 million**
- **Novartis acknowledges the seriousness of the alleged conduct**
- **Novartis states that they intend to continue to use the Specialty Pharmacy channel**
- **It is unclear if any new Corporate Integrity Agreement will be put in place, but Novartis does not believe the settlement will impact their business**

> *"Novartis said it cannot say much, but it does not expect any problems that would relate to Entresto [newly launching product], nor does it expect any significant impact on other businesses."*
>
> *- Bernstein, October 28, 2015*

Pershing Square's Research

- **At the time of Pershing Square's investment in Valeant, Pershing Square was aware that Valeant had a Specialty Pharmacy strategy**
- **We believed this strategy was a small component of Valeant's business**
- **By mid-2015, we became aware that Philidor was becoming a more significant part of Valeant's business and in July we conducted due diligence on Philidor and the specialty pharmacy channel**
- **Our due diligence confirmed that specialty pharmacies offer many benefits to doctors, patients, and manufacturers and were playing an increasingly important role in the distribution of prescription drugs**
- **We believed Philidor's business practices were similar to other specialty pharmacies**
- **We contacted Philidor and asked if the company was owned by Valeant; we were told "No."**
- **Until last week, Pershing Square did not know that Valeant had acquired an undisclosed purchase option in December 2014**

Despite Improved Disclosure, Questions Remain

On its October 26th conference call, Valeant management answered many important questions and disproved alleged accounting fraud, but did not adequately answer three important questions

1. **Why did Valeant not provide more disclosure about Philidor?**
   - Valeant's answer:
     - "We have viewed our relationship with Philidor and our other specialty pharmacies as proprietary and as one of our competitive advantages"(1)
     - "Philidor was not specifically mentioned in our disclosures because it had not been material to the consolidated financial statements."(2)
2. **Why did Valeant structure the Philidor option with a $100mm premium and $0 strike price?**
   - Valeant's answer:
     - "Ultimately we determined that the structured option acquisition with the oversight rights we negotiated provided the security we were looking for and preserved the flexibility to acquire in the future a new growth platform."(2)
     - "The rationale to acquire the option was to keep Philidor focused on Valeant's business and to ensure continued strong customer service. The option also gave Valeant a level of contractual influence to benefit our business while providing an option on long-term ownership." (2)
3. **Did Philidor violate laws and regulations in the operation of its specialty pharmacy?**
   - Valeant's board has formed an *ad hoc* committee to investigate Philidor's compliance

(1): Valeant Q3 2015 earnings presentation. October 19, 2015.
(2): Valeant investor conference call. October 26, 2015.

The Path From Here

We expect:

- In the very near term, a decision to terminate the Philidor relationship and develop new channel partners
- Over the next several months, more negative press reports, scrutiny from regulators and politicians
- Completion of the *ad hoc* committee's work
- Over the next year, resilient operating performance from Valeant
- In the next two to four years, completion of recently announced investigations

We believe that with the passage of time Valeant's share price will reflect the value of its franchises, its low-cost operating model, and its efficient capital allocation strategy

What have investors forgotten?

Valeant's Franchises

Valeant has built a diversified collection of platforms, including:

- **Bausch & Lomb: 21% of sales[(1)]**
  - Global portfolio of consumer, prescription and surgical products
  - Organic growth 11% 2014, 7% YTD 2015
- **Gastrointestinal: 19% of sales[(2)]**
  - Acquired in April 2015; prescriptions for largest product grew 25% last quarter
- **Emerging Markets: 18% of sales[(2)]**
  - Durable portfolio of branded generic products
- **US Dermatology Rx: 16% of sales[(2)]**
  - One of the largest Dermatology Rx businesses in the United States
  - Benefitting from recent product launches – Jublia, Onexton, RAM .08%, Luzu
- **Neurology /Other: 15% of sales[(2)]**
  - Older products, declining to ~10% of revenue in 2016

(1): Sales percentage from last reported public disclosure in Q2 2015, adjusted for estimated Salix inventory wholesaler reduction and Amoun acquisition. Excludes B&L emerging markets sales.
(2): Sales percentages calculated from reported Q3 2015 sales and pro-forma estimated Salix inventory wholesaler reduction and Amoun acquisition.

Recent Business Performance

Valeant's business has performed well in 2015

- **Strong organic revenue growth:**
  - 15% organic revenue growth YTD; 13% in Q3
- **Growth has been driven by a mix of volume and price:**
  - In Q3 2015, volume increased ~8% and net realized price increased ~4%
- **Strong revenue growth, cost management, and capital allocation have contributed to a significant increase in earnings expectations:**
  - Consensus 2016 EPS expectations as of January 2015: $11.47(1)
  - Consensus 2016 EPS expectations as of October 2015: $16.15(2) (+~41%)

(1): Bloomberg January 5th, 2015.
(2): Bloomberg October 29th, 2015.

Valuation

Assuming Valeant achieves "Floor" 2016 EBITDA guidance of $7.5bn, the stock is inexpensive as a multiple of 2016 EPS

- **$7.5bn of EBITDA translates into ~$15.50 of Cash EPS(1)**
- **At the Oct. 29 closing share price of $111.50, Valeant trades at ~7x this estimate of 2016 Cash EPS**

Conservatively assuming all of Philidor's sales were lost and not replaced through another channel, the stock is still inexpensive

- **Eliminating Philidor's earnings contribution would result in a reduction of Valeant's "floor" 2016 EBITDA to ~$7.0bn, or ~$14 of Cash EPS(2)**
- **At the Oct. 29 closing share price of $111.50, Valeant trades at ~8x this alternate estimate of 2016 Cash EPS**

(1): Assumes $300mm depreciation and stock based compensation, 5% tax rate, 351mm shares, ~$1.5bn of interest expense.
(2): Philidor EBITA contribution assumed to be 7%, equal to EBITA contributed in Q3 2015 per management presentation.

Valuation – Conservative Long-Term Model

Conservatively assuming Valeant never makes another acquisition, has modest organic growth and reduces leverage significantly, the stock is inexpensive

- **Assumptions:**
  - $7.25bn of 2016 EBITDA (assumes ~50% of Philidor profit contribution is lost)
  - 5% organic EBITDA CAGR 2016-2020
  - De-levers to 3x LTM EBITDA and 6% cost of debt
  - 10% 2020 tax rate
  - Use of excess cash flow to buyback stock at 15x LTM EPS
- **Results:**
  - Valeant de-levers to ~3.5x LTM EBITDA by year end 2016
    - We anticipate Valeant will be an investment grade credit at these levels
  - 2020 EPS of ~$22

<u>High return potential even using conservative modeling assumptions:</u>

2020 EPS	$ 22	$ 22	$ 22
Forward Multiple	12.0x	14.0x	16.0x
2019 Value (Year End)	$264	$308	$352
Discounted Present Value (@10%)	**$ 180**	**$ 210**	**$ 240**
Return From Current Share Price ($111.50)	62%	89%	116%

Valuation – Long-Term Model

Assuming Valeant de-levers and maintains 3.5 turns of leverage, allocates free cash flow to acquisitions, and grows at a rate reflective of the strength of its franchises, the stock is tremendously undervalued

- **Assumptions:**
  - $7.25bn of 2016 EBITDA (assumes ~50% of Philidor profit contribution is lost)
  - 7.5% organic EBITDA CAGR 2016-2020
  - De-levers to 3.5x LTM EBITDA and 6% cost of debt
  - 10% 2020 tax rate
  - Use of excess cash flow to make acquisitions at 7x Pro-Forma EBITDA
    - Maximum $10bn of acquisitions per year
  - Remaining free cash flow, if any, used to buyback stock at 15x LTM EPS

High return potential :

2020 EPS	$ 32	$ 32	$ 32
Forward Multiple	12.0x	14.0x	16.0x
2019 Value (Year End)	$384	$448	$512
Discounted Present Value (@10%)	**$ 262**	**$ 306**	**$ 350**
Return From Current Share Price ($111.50)	135%	174%	214%

The Philidor Scandal of 2015 Reminds Us of...

The Great Salad Oil Scandal of 1963

- **AmEx was known for its highly profitable, growing businesses in credit cards and travelers checks**
  - AmEx had a healthy franchise which was growing robustly, with revenues and operating income growing over the prior decade at 12% and 11% compound annual growth rates, respectively
- **AmEx's Warehousing Division, a relatively new business line, made loans to a company called Allied Crude Vegetable Oil Refining Corp. run by con-man Anthony "Tino" De Angelis**
- **De Angelis had previously swindled the government under the National School Lunch program, and went bankrupt**
- **AmEx's security was Allied's inventory of soybean oil stored in large tanks, valued at more than $150 million (~$1.2 billion in 2015 dollars). De Angelis' claimed inventory exceeded the entire U.S. inventory of soybean oil as reported by the Department of Agriculture**
- **The tanks were filled with water topped off with a thin layer of oil. When plumbed with a dip stick, the tanks appeared to be full of soybean oil**

The Great Salad Oil Scandal of 1963 (cont'd.)

- **Had AmEx done better due diligence, it would have never dealt with De Angelis**
- **AmEx's share price fell over 40%, eliminating ~$110 million in AmEx's market capitalization due to the perception that AmEx's franchise was at risk**
- **A 35-year-old hedge fund manager put 40% of his fund into AmEx . . .**

"Every trust department in the United States panicked," explained this 35-year-old hedge fund manager, "the stock just poured out"

- **Although it wasn't obvious to many at the time, the dislocation in the stock price due to the scandal provided a great buying opportunity. With the passage of time, the strength of AmEx's business proved resilent**

"As described in other sections of this report, the extremely complex warehousing situation has not interfered with the continued growth and attainment of record highs in our main lines of business"

\- American Express, 1964 Annual Report

"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors."[1]

- Warren E. Buffett

(1): Buffett, Warren. Buy American. I Am. The New York Times. Op-ed contribution. October 16, 2008.

Q & A