

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VRX.TO - Valeant Pharmaceuticals International Inc Conference Call
to Provide Business Update

EVENT DATE/TIME: NOVEMBER 10, 2015 / 1:00PM GMT

OVERVIEW:

On 11/10/15, VRX provided a business update.



CORPORATE PARTICIPANTS

Laurie Little *Valeant Pharmaceuticals International, Inc. - Head of IR*

J. Michael Pearson *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Rob Rosiello *Valeant Pharmaceuticals International, Inc. - CFO*

Tanya Carro *Valeant Pharmaceuticals International, Inc. - Corporate Controller*

Ari Kellen *Valeant Pharmaceuticals International, Inc. - Company Group Chairman*

CONFERENCE CALL PARTICIPANTS

Marc Goodman *UBS - Analyst*

Douglas Tsao *Barclays Capital - Analyst*

Chris Schott *JPMorgan - Analyst*

Corey Davis *Canaccord Genuity - Analyst*

Douglas Miehme *RBC Capital Markets - Analyst*

Umer Raffat *Evercore ISI - Analyst*

Alex Arfaei *BMO Capital Markets - Analyst*

Gregg Gilbert *Deutsche Bank - Analyst*

Louise Chen *Guggenheim Securities LLC - Analyst*

David Risinger *Morgan Stanley - Analyst*

Sumant Kulkarni *BofA Merrill Lynch - Analyst*

Tim Chiang *BTIG - Analyst*

Annabel Samimy *Stifel Nicolaus - Analyst*

Lennox Gibbs *TD Securities - Analyst*

Shibani Malhotra *Nomura Securities - Analyst*

Gary Nachman *Goldman Sachs - Analyst*

Ronald Redfield *Redfield, Blonsky & Starinsky - Analyst*

Abza Qadri *Unidentified Company - Analyst*

David Common *JPMorgan - Analyst*

Alan Ridgeway *Scotiabank - Analyst*

Ryan Firestone *Ptarmigan Research - Analyst*

Milun Patel *Overbrook Management Corp. - Analyst*

David Steinberg *Jefferies LLC - Analyst*

Josephine Shin *Alcentra - Analyst*

Eric Dubowsky *Alpine Associates - Analyst*

PRESENTATION



Operator

Good morning, my name is Keith, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Valeant Pharmaceuticals investor call.

(Operator Instructions)

Thank you. Laurie Little, head of Investor Relations, you may begin your conference.

Laurie Little - Valeant Pharmaceuticals International, Inc. - Head of IR

Thanks, Keith. Good morning, everyone, and welcome to today's investor conference call. Participating on today's call are J. Michael Pearson, Chairman and Chief Executive Officer; Rob Rosiello, Chief Financial Officer; Dr. Ari Kellen, Company Group Chairman; Deb Jorn, Company Group Chairman; and Tanya Carro, Corporate Controller.

Before we begin, our call today contains forward-looking information. Certain statements made during this call including the Q&A session may constitute forward-looking statements, including but not limited to statements regarding the Philidor transition and wind-up, future patient access programs, the impacts of recent events including Philidor and investigations by Congress or other governmental agencies on our business operations, our expectations regarding the performance and the growth of our business operations, timing of and outcome of development programs, our balance sheet and debt repayment, future guidance and the review of the ad hoc committee of the Board.

Forward-looking statements may generally be identified by the use of the words anticipates, expects, intends, plans, should, could, would, may, will, believe, estimates, potential, target or continue, and variations or similar expressions. These statements are based upon the current expectation and beliefs of management and are subject to certain risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

These risks and uncertainties include, but are not limited to, risks and uncertainties discussed in the Company's most recent annual or quarterly report, and detailed from time to time in Valeant's other filings with the Securities and Exchange Commission, and the Canadian securities administrators, which factors are incorporated herein by reference. Listeners are cautioned not to place undue reliance on any of these forward-looking statements. These forward-looking statements speak only as of the date hereof.

Valeant undertakes no obligation to update any of these forward-looking statements to reflect events or circumstances after the date of this call to reflect actual outcomes except to the extent required by law. And with that, I will turn the call over to Mike.

J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Thank you, Laurie. Good morning, and thank you all for joining. We are holding this call today to update you on our strategy with respect to specialty pharmacies, to explain our transition plans for Philidor, to discuss our business performance for the first half of the quarter, and perhaps most importantly, to take questions from all of you.

Let me start discussing specialty pharmacies and our transition plans for patients and doctors who were using Philidor to fill prescriptions. Our original goal in working with the specialty pharmacy channel was to develop an innovative solution to a problem we often heard from healthcare professionals prescribing dermatology products, that their patients were not receiving the medications that they prescribed at affordable prices.

Specialty pharmacies address these concerns by adjudicating claims and ensuring that prescriptions that should be covered by commercial insurance are dispensed to patients in an efficient manner. They can also provide prescriptions to non-government program patients who aren't covered for that product at an affordable cost. Specialty pharmacies are used by all of our major competitors in the dermatology space and there are numerous specialty pharmacies throughout the country.

We began working with Philidor because we believed a strong relationship with one specialty pharmacy would deliver better, faster customer service for doctors and patients. We were also looking for a pharmacy which would be willing to process prescriptions before adjudicating the claims, which would allow us, rather than the patient, to assume the risk if the commercial payer denied the claim. As you know, however, when some other recent allegations surrounding Philidor's business practices came to light we decided it was appropriate to terminate our relationship.

Since then we have been working to develop a transition plan that mitigates disruption for patients and for doctors. As of last week, Philidor has stopped adjudicating claims. Philidor will continue to offer a cash pay option for all of Valeant's promoted dermatology products for patients with commercial insurance plans for \$35 wherever possible. Philidor has committed to cease operations by January 30, 2016 at the latest.

Doctors continue to tell us that a specialty pharmacy model is important to them. We plan to put in place a new Valeant access program within the next 90 days to ensure patients continue to have access to Valeant's dermatology products at affordable prices through one or more contractual arrangements with established pharmacies.

Now I want to give you an update on the Company's business performance over the first five weeks of the quarter. The good news is that even in the midst of the challenges we have been facing, our employees remain focused on serving doctors and patients and delivering strong results. Lost in all the news about Philidor is the fact that it represented only \$190 million of revenue in the third quarter, or 6.8% of our \$2.8 billion in overall revenues for the quarter.

Starting to go through our businesses, first, dermatology. In the very short term, disruption in our dermatology business will be significant. Last week, we asked Philidor to stop adjudicating claims and to fill all prescriptions at no cost for the week. In going forward, they are implementing the cash pay option I previously described until they cease operations.

Until we implement a new Valeant access program, many doctors will likely change their prescribing behavior. Fortunately, most dermatologists, podiatrists and other care professionals that we have talked to continue to be very supportive of our Company, given our people, our products, our upcoming product launches, our investment in R&D, and our investment in their profession. Clearly, developing a new access solution for dermatologists is our top priority, and we are confident we will have one place in the next 90 days.

Therefore, the negative impact on dermatology will be primarily felt in the fourth quarter of this year. By Q1, we expect to begin regaining momentum with a new program, and we believe, at the latest, the dermatology business will be performing as it has historically by the second half of next year. I'm also pleased to report that we will be filing our new psoriasis biologic, Broda, later this month with the FDA.

Turning to Neuro, we are also seeing some short-term pressure in our Neuro business, in particular with respect to Nitropress and Isuprel, given all the publicity around those two drugs. We are working with our large customers and providing direct discounts to protect volume.

Canada. In Canada, the negative press around Valeant is having a modest impact on the business. We expect this will be minimal impact in Canada for the quarter. In all of our other businesses beyond these three, we are seeing little to no impact to date from the recent controversies. We believe that is due to the strength of our decentralized operating model.

Specifically, at Salix we are seeing continued strong script growth the past four weeks of this year versus the same period last year across all major brands. XIFAXAN scripts are up 36%, RELISTOR scripts are up 31%, UCERIS scripts are up 11%, and APRISO scripts are up 5%. XIFAXAN hit an all time high of over 15,000 the week ending October 30, the last week for which we have reporting data. And XIFAXAN is clearly already responding well to our DPC campaign.

At Commonwealth Labs, we have had a successful launch of IBSchek, and we are on track for greater than 100% year-on-year growth for our new diagnostic company. Consumer. In our Consumer portfolio, we are on track to grow year-on-year in the high-single-digits in the fourth quarter. Key growth brands include CeraVe, PreserVision, and BioTrue Multipurpose Solution.

Ophthalmology. In Ophthalmology, we expect low-single-digit quarter-on-quarter script growth in the fourth quarter driven by our major brands, LOTEMAX and PROLENSA.

NOVEMBER 10, 2015 / 1:00PM, VRX.TO - Valeant Pharmaceuticals International Inc Conference Call to Provide Business Update

Generics. In Generics, we're seeing flattish performance Q4 to Q4 versus last year. **Dendreon.** For Dendreon, we expect mid-single-digit growth Q3 to Q4 this year, as we are successfully implementing our strategy to increase focus on the urology community. **US Contact Lenses.** For US Contact Lenses, we continue to see 20% year-on-year growth driven by Ultra, and Biotrue ONEday.

Surgical. Surgical continues to grow sequentially at low-single-digits in a market that has been largely flat to declining this year. Key growth areas include VICTUS consumables, Stelara sales, and TRULIGN and EnVista IOLs. Meanwhile, the Synergetics integration is well on track.

Dentistry. In dentistry, we are continuing to grow double digits year-on-year. **Sprout.** At Sprout to date, we have over 5,600 prescribers certified to prescribe Addyi and over 20,000 retail store locations enrolled to dispense. We have received initial stocking orders of approximately \$25 million.

Central and Eastern Europe. In Central and Eastern Europe, Africa and the Middle East, we expect to return to high-single-digit organic growth in the fourth quarter. We recently completed the acquisition of Amoun which closed on October 19. In October, Amoun achieved greater than \$20 million in sales, an all-time high for the company.

In Asia, in Asia we are continuing year-on-year double-digit organic growth, with China on track to achieve greater than 15% organic growth. **Western Europe.** In Western Europe, we expect low-single-digit organic growth in Q4. **Mexico.** In Mexico, we are continuing to see double-digit organic growth and we are successfully integrating Humax.

Turning to guidance. In terms of guidance, we are working to quantify the potential short-term impact of recent events, including the termination of our relationship with Philidor. Specifically, the downsides in Q4 will be primarily in dermatology and to a lesser extent, neurology Rx. Obviously, what has happened will impact Q4. We are working to quantify the impact on Q4 and 2016 and we will provide you with updated guidance at our investor day in December.

In conclusion, the past few weeks have been a painful learning experience for me personally, and I know it has been painful for many of you as well. Valeant is a Company that has grown very quickly. Our record of growth has given us a scale to do important things, to bring medicines that benefit to patients and to the market in a way that is different than some of the traditional pharmaceutical companies.

But one of the consequences of such rapid growth is that you don't always take the time to listen to what the broader world outside your Company is saying. This has been a mistake on our part as a Company and on my part as its leader. We're going to fix that. The other things I'm dedicated to doing going forward is listening more to our patients, our partners, and our critics.

And when we think they are right, we are going to respond to make the appropriate changes in how we do things. I think we will be stronger for having done so. Finally, let me say that I'm proud of the Company we have built over the past seven years. We are on a strong financial footing, and while our strategy remains intact, our product portfolio has shifted dramatically.

Five years ago, approximately 35% of our sales were Neuro, and 50% of our sales were in Neuro, Canada and Australia, collectively. Today these businesses represent approximately 20% of our business, while over two-thirds of our sales are in GI, eye health, dermatology, and the emerging markets. Our branded US Rx business has exciting launch brands and a pipeline of innovative drugs. This gives me confidence in our ability to deliver industry-leading organic growth driven by volume growth and not reliant on price increases.

In the near term, deleveraging of our balance sheet is a priority and we plan to focus the use of our cash flow for debt repayment. I'm committed to this Company, I'm committed to its long-term success. I believe we have a plan to continue delivering excellent products for patients and doctors and strong financial results for investors. And I'm going to devote every bit of energy I have to meeting these objectives and moving Valeant forward. With that, I'll turn the call back to Laurie.

Laurie Little - *Valeant Pharmaceuticals International, Inc. - Head of IR*

Thank you, Mike. A few housekeeping items before we open the call up for questions. First, as you all are aware, our Board has established an ad hoc committee of independent directors to conduct a review of the Company's relationship with Philidor and other related matters. Given that review, I hope you'll understand that we will not be able to address specific questions about Philidor's practices.

In addition, we will also be limited about what we can say about financial guidance until we issue new guidance in December, but we will try to address everything else to the best of our ability. Second, we ask that everyone is respectful to their peers and limit your question to one so that we can get to as many people as possible. You may then get back in the queue to ask another question. And with that, we will open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Umer Raffat. Umer Raffat, your line is open.

Laurie Little - *Valeant Pharmaceuticals International, Inc. - Head of IR*

Let's go ahead and go to the next question.

Operator

Marc Goodman from UBS.

Marc Goodman - *UBS - Analyst*

Mike, you mentioned the Marathon products and that you work having a little bit of problems there with volumes and pricing. Can you just go into a little more detail? What kind of price are you having to give up there, and what kind of volume hits are we talking about? Thanks.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So for our largest customers, we've gone directly to them and we're offering discounts that are significant. Obviously, I don't want to give a specific number since we're talking to lots of different customers. I think the overall hit on those two parts this quarter, maybe 20% versus what we sold in Q3.

Marc Goodman - *UBS - Analyst*

Thanks.

Operator

Douglas Tsao from Barclays.



Douglas Tsao - *Barclays Capital - Analyst*

Hi, good morning, thanks, Mike. I believe in terms of the disruption that you expect to see in dermatology, is this basically just sort of a framework for how we should think about it, if we think that sort of like half that business? How much can transition to sort of traditional channels more quickly, or do you think much of that volume really does need to stay to sort of a specialty pharmacy channel and sort of really hinges on your ability to get that up and running?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So if you look at our derm scripts, more than half flow through traditional pharmacies. And at least to date, we're seeing continued strong script growth in that channel. In specialty, we, obviously, had a disruption. Now I think a lot of scripts were filled last week, but they were all filled for free.

So in terms of short-term financials, that will, obviously, have an impact for the rest of the quarter. I do believe we need to put in place a new specialty program to complement the retail scripts, and we are working very hard on that and we will hope to have a solution sometime this quarter. We're also spending a huge amount of time out with doctors.

Ari and I have been going around the country, and we'll continue to go around the country, seeing doctors in all the major cities and the response has been quite good. Most of these doctors really appreciate all the investment we've made in their profession over the last couple of years, and they really like our product portfolios and they really like our people.

So we view this as getting a new solution in place that hopefully will, again, be the best in the industry. The one thing we'll do this time is make sure that these relationships are solely contractual.

Douglas Tsao - *Barclays Capital - Analyst*

And then just in terms of the volumes and the scripts, did you have some script writers who were almost wholly going through specialty?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes. Many doctors will prefer to go to specialty because of callbacks and other things, but, again, patients will make their own choices. It's a patient decision whether they use a specialty pharmacy or whether they use retail. And I think a lot of patients who have good coverage just prefer going to retail. I think the patients that go to specialty tend to be ones that are not as well covered, or that they're looking for a cash pay option.

Operator

Chris Schott from JPMorgan.

Chris Schott - *JPMorgan - Analyst*

Great, thanks very much for the question. Just a question on broader payer relationships. How contained is this controversy with Philidor? I guess, have you had higher level discussions with payers, and are you comfortable that these issues aren't going to impact the formulary status of the broader portfolio at the Company?



J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

We are also working hard to reach out to payers and other distribution partners. We have -- historically, I have not spent a lot of time on doing that. Anne Whitaker, who has recently joined us, has a lot of very senior relationships and she's helping us in reaching out and having top-to-top meetings.

And those discussions so far are going quite well. And we're willing to make longer-term commitments to the payers and to ensure that our products continue to have at least the current, if not improved, formulary status.

Operator

Corey Davis from Canaccord.

Corey Davis - *Canaccord Genuity - Analyst*

Just to be clear about the impact that you may see in the Derm division, especially in Q4. Is it mainly just the value per script because you're filling them for free, or you also seeing volume declines because it's a disruption through Philidor?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So, again, based on the data we have, we've not seen volume declines. It's largely the value of the average selling price for a script. Now I would not be shocked to see some volume declines over the next few weeks.

In fact, I would expect that. But I don't think they're going to be hugely material. The onus is on us to get some sort of a Plan B in place, and we are quite confident that we'll be able to get that done quite quickly.

Corey Davis - *Canaccord Genuity - Analyst*

And Plan B is still going to be very much involved with base specialty pharmacy, whatever that is, you're not abandoning that model, I assume, and would you expect the same level of volume for your Derm products when something is set up to continue to go through specialty pharmacies?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I think specialty pharmacy, Corey, will certainly be one aspect of Plan B. But we're also thinking about what else we could do. What we certainly want to do is have a program that, if we can come up with one, which we think we can, which will be distinctive versus what our competition has.

Corey Davis - *Canaccord Genuity - Analyst*

Thanks very much, Mike.

Operator

Douglas Miehme from RBC Capital Markets.

Douglas Mieh - *RBC Capital Markets - Analyst*

Thank you. This question is really for Robert. I know that on Q3 you had indicated that cash flow or adjusted cash flow for Q4 would be lower relative to Q3. And perhaps this has to do with changing gross to net as we've seen those widen over the last several quarters. Perhaps you could talk to us about how you see gross to net changing over the next several quarters? And what were the original reasons for the decrease in expected Q4 cash flow relative to Q3? Thank you.

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

So I'd say two things, one is, historically, the conversion ratio has been lower in the fourth quarter. So in 2014 it was 71%. The other was a view of growth and, therefore, what was going on with working capital which tends to track our growth. My judgment at that time was that our conversion would be below 90% for Q4.

Douglas Mieh - *RBC Capital Markets - Analyst*

And the trend in gross to net?

Tanya Carro - *Valeant Pharmaceuticals International, Inc. - Corporate Controller*

That's just a function of the difference co-pay subsidies, managed care rebates, et cetera that we pay. And with the growth in our dermatology portfolio which has a substantial amount of those, those were increasing. Obviously, depending on what happens, based on what Mike said about movement in script volumes, that trend will likely continue as that derm business grows over time.

Douglas Mieh - *RBC Capital Markets - Analyst*

Thank you.

Operator

Umer Raffat, your line is open.

Umer Raffat - *Evercore ISI - Analyst*

Hi, guys, thanks for taking my question. I'm sorry I missed the Elmer Fudd call out earlier. So Philidor, my question is not on its practices, but you have mentioned it is 7% of your revenues that are flowing through it. But my question is, was Philidor acting as a co-pay manager for revenues beyond that 7%, that's one?

And then accounts receivable, when should we expect to see a normalization and perhaps a recovery of the receivables that have been building? And then, sorry, I didn't follow what the answer was to the gross to net question because I think the gross to net went from like 32% to 41% quarter-over-quarter, so I didn't quite understand the explanation and would really appreciate any color? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Could you repeat the first one, I want to make sure I answer it.



Umer Raffat - *Evercore ISI - Analyst*

If 7% of the revenues are going through Philidor, was Philidor also acting as a co-pay manager, let's say, for products beyond those 7%, like, I don't know, Provenge, or some neuro products, just so we have it straight.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

The 7% were just the products flowing through. They were not acting as a co-pay manager or playing any role in any products other than the dermatology products, and there are few other - I think Wellbutrin had some flowing through, and we were just piloting ophthalmology with a few practices. So 99% of it was derm products, and it was only for those products that were being sent to Philidor. Had no role beyond that. I'll turn it over to Rob and Tanya to answer your AR and gross to net questions.

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

So let me start. To me the growth in AR was the acceleration of Salix at the end of the quarter. That growth was higher and, therefore, translated into higher AR. So I think you'll see a return to normalization as that business nets out.

Tanya Carro - *Valeant Pharmaceuticals International, Inc. - Corporate Controller*

Yes, but keep in mind what you'll see by way of the movement in AR is more based on the movement in gross revenues. And it is offset by an increase in accrued liabilities in the cash flow statement for the gross to net items which include all of your co-pay programs, your managed care rebates, any price protection that comes along with some of those contracts.

And the comment about the trend in the gross to net was really due to the fact that over recent quarters you've seen the majority of our growth coming from the US prescription businesses. This is where we have the largest gross to net. So to the extent that those businesses continue to grow, you will likely continue to see a widening when we're looking at the overall percentage of the business.

Umer Raffat - *Evercore ISI - Analyst*

Thank you very much.

Operator

Alex Arfaei from BMO Capital Markets.

Alex Arfaei - *BMO Capital Markets - Analyst*

Good morning, folks. Thank you for doing this call and taking the questions. A higher level one, Mike. I think a lot of the investors are worried about what else could be revealed as a result of the additional scrutiny you're getting. Have you done a risk adjustment, I guess, a risk assessment for the rest of your business that identified any other business practices that could make your stock vulnerable like this? And related to that, are you looking at reevaluating your disclosure practices to increase visibility? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So, again, we have a large Company. We have operations in 60-plus companies. We have 22,000 people. But we feel actually very good about our controls.



The financial controls, our compliance, our legal, and I think Philidor -- I need to remind everyone that it was a separate company. And unlike the rest, and we don't have any other arrangements like Philidor. So it was a separate company, we were not involved to the same degree as the rest of our businesses which we own directly in the day-to-day operations. I also would like to mention that in terms of Philidor there have been many allegations, but thus far, to my understanding, these allegations have not been proven.

And Philidor's management has assured me that there has been no wrongdoing. So, again, these have been allegations. So we continue to always look at our controls, and the ad hoc committee's review will also come back with a report in terms of things we should be doing differently. We also every year do a risk assessment, part of the audit risk committee. And usually we use Deloitte from an external standpoint to work with us on this risk assessment in trying to identify different areas and what we need to do.

So my guess is that we will continue that practice as well. So we're unaware of any other issues, but, again, in a Company this size it's impossible to have full knowledge of everything at any one time.

Alex Arfaei - *BMO Capital Markets - Analyst*

Thank you.

Operator

Gregg Gilbert from Deutsche Bank.

Gregg Gilbert - *Deutsche Bank - Analyst*

Thanks, good morning. Just a clarification on the guidance you're contemplating. Is that just the short-term change or should we assume the \$7.5 billion in EBITDA as the goal for 2016 is no longer on the table? And my question is about inventory levels, can you confirm, Mike, the inventory levels for all businesses in all regions are within your normal ranges and remind us what those ranges are? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Sure, Gregg. We're not going to comment on specific guidance until we get to December. But in terms of inventories, in the US our range is -- I'll just talk about prescription pharmaceutical products, I think that is probably what you're focused on, in the US.

But we can go through the others as well where there tends to be almost no inventory like in contact lenses, et cetera. In prescription pharmaceuticals, our range is two weeks to six weeks, and we're currently less than one month. So we're well within that range. That's for legacy value products. For Salix, where we've been bringing down inventories, I think we reported we were at two months on our last call.

We are down now to six weeks, and we would expect by the end of the quarter that will also be at one month or less. Around the world in the other regions, the emerging markets, which we've had a lot of questions on, our policy is more between two months and four months and we are at approximately three months or less. So it varies by country. But I don't think -- I am not aware of any country where we're more than the four months, maybe Poland, we are a little bit higher, Tanya, which we been working down.

Asia, again, inventory levels are in that two to four week, we think it's approximately three. In Mexico, we estimate three. Again, the data in some of these emerging markets is less robust than in the US. So when I say approximately, in some cases there's not automated systems. In some cases distributors, it's more difficult to assess, but we are operating at normal inventory levels around the world, and, in fact, have been decreasing our inventories in the United States versus where we were a year ago. I don't know, Gregg, are there any other businesses that you're concerned about?



Gregg Gilbert - *Deutsche Bank - Analyst*

No. Is it fair to assume that those businesses that you did not comment on are lean inventory businesses and that's why you didn't comment on them because that's determined by retailers, for example?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

We can talk, like Dendreon, there is no inventory levels in terms of -- they do the infusions, it's just a time, consumer, it's whatever Walmart and Walgreens, et cetera, want to have. Contact lenses, we're selling those directly to either optical shops or to big box stores like Walmart. Again, when we -- in terms of Sultan, Obagi, we use McKesson and they have standard levels of inventory and ship it directly to our customers.

So, again, the business, yes, IOLs, they're done on a consignment basis, so the IOLs are actually at the doctors' offices. But, again, we don't recognize revenue until the IOLs actually are used on the patient. So most of these inventory levels at these other businesses are actually minimal.

Gregg Gilbert - *Deutsche Bank - Analyst*

Okay, just to make sure I understand it, emerging markets normal is two to four, you believe you're at three in total, and Poland might be at the higher end or above the range. Is that fair?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes. And if you go to our website, since we were anticipating some of these questions, we have a full description of where our inventories stand on our website. And if you want to take a look at that in detail.

Gregg Gilbert - *Deutsche Bank - Analyst*

Thanks.

Operator

Louise Chen from Guggenheim.

Louise Chen - *Guggenheim Securities LLC - Analyst*

Hi, thanks for taking my question. So curious as to what you see are the largest drivers of organic growth in 2016, and is there enough there to offset weakness from Derm and your hospital products? Thanks.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Again, we're not going to give guidance for 2016, but we feel very good about the organic growth prospects next year. And I don't view Derm as a long-term problem, I view it as we have to get in place with other solutions, and we need to keep our field force engaged, which we are. And we need to keep spending time with the physicians, so, I guess, I feel good about our organic growth overall for next year.

Operator

David Risinger from Morgan Stanley.

David Risinger - *Morgan Stanley - Analyst*

Thanks very much. I have a couple questions, the first is, do certain health plans have exclusive mail-order contracts for mailing traditional medicines such that they can block mail delivery of traditional oral drugs via non-contracted specialty pharmacies? I ask the question because I spoke to a health plan that they had an exclusive mail-order contract with a mail-order provider and they were contemplating exercising those exclusive mail-order rights.

And then, second, when do you expect the ad hoc committee to conclude its review? Should we expect that to occur by the filing of the 10-K in early March? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Thanks, Dave. In terms of specific health plans and their ability to block or not block, I suspect the health plan has better answer than I do. They would know what their contracts say. So I do not know the precise nature of the contract that you talked to the health plan about. So I really can't comment on that.

In terms of the ad hoc committee, what I can say is it's been formed, they have hired outside counsel, it's independent. And I can tell you that management totally supports the ad hoc committee, but I cannot comment on any kind of timing.

David Risinger - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Sumant Kulkarni from Bank of America Merrill Lynch.

Sumant Kulkarni - *BofA Merrill Lynch - Analyst*

Good morning, thanks for taking my questions. I know you are not commenting on specific guidance, but how much of the 2016 EBITDA flow that was already in place was from specialty pharmacies that will be affected until alternatives are in place? And, second, how representative are IMS data for channels other than specialty pharmacies for the dermatology business?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I think IMS does a pretty good job of capturing retail scripts. But I think in dermatology across all companies, a significant volume, and probably an increasing volume, flows through specialty, and I don't think IMS tracks that volume. Certainly, they didn't for our products.

In terms of 2016, the percent flowing through specialty pharmacy, that is not how we, that's not how -- we didn't distinguish, we talked about our overall business, and if you think about it, if the specialty pharmacy option is not available patients will go to retail. So you don't lose all the scripts, just, that was [ranked] through specialty pharmacy. The other point is that specialty pharmacies in dermatology do prescribe our products too, or do handle our products.

We don't have contractual arrangements with their pharmacies. So a doctor today could send, if they do not have Philidor as an option, they could use one of the other specialty pharmacies to dispense our products. So in that sense, it's not like all of a sudden they can't prescribe our products

through specialty pharmacy, they can and they are. What we don't have is a program, a specific Valeant access program, that makes use of other specialty pharmacies, and that's what we'll put in place.

But currently doctors are prescribing our products. Patients have a choice, they can go to retail, or they can go to a specialty pharmacy. And to my knowledge, all specialty pharmacies are willing to prescribe our products.

Sumant Kulkarni - *BofA Merrill Lynch - Analyst*

Thanks.

Operator

Tim Chiang, your line is open.

Tim Chiang - *BTIG - Analyst*

Hi, thanks. Mike, you mentioned that there's about a 20% hit to the Marathon products in the fourth quarter. Did you quantify what the hit is to the dermatology business in the fourth quarter?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

No I haven't. And we will do so at our call in December.

Tim Chiang - *BTIG - Analyst*

And maybe just one follow-up, Mike. In the hospital outreach programs that you guys have deployed, how many hospitals have you actually gone to?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I can't give you a specific number. But it's a pretty concentrated use of Nitropress and Isuprel. There's many hospitals that use a very little bit, and then there some that actually use white a bit, so it's not evenly -- so I think we made contact to all the larger ones. We're in the process of discussions with them. And I don't have the specific details on hand here, but we can get back to you later if that's important to you.

Tim Chiang - *BTIG - Analyst*

Yes, just the major hospitals that you've reached out to, and what have the responses been?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

The responses have been quite positive. They would love to enter into a contractual negotiation with us. And until -- we really haven't had much of a presence in hospitals and we don't use GPOs, so that enables us to actually enter into, at least for traditional Valeant products. Salix, I think, had a GPO arrangement for some of their hospital products. But we can directly contract with hospitals and trade price for volume, and that's -- and so far the customers have been quite positive.

Tim Chiang - *BTIG - Analyst*

Okay, great. Thanks, Mike.

Operator

Annabel Samimy from Stifel.

Annabel Samimy - *Stifel Nicolaus - Analyst*

Hi, thanks for taking my question. I just wanted to go back to the traditional channels for a minute for the Derm products. So you said 50% goes through traditional channels. We know very well what the hurdles to access are, do you think any of those hurdles have changed or increased since this whole thing has started?

And I guess I ask that because you mentioned that you expect the volumes to go down. And also, how difficult do you think it's going to be to form a relationship with another specialty pharmacy? Have you started discussions already and what kind of receptions have you received? Thanks.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So I don't think anything dramatic has changed in the traditional channel. Since this has all happened, I think the Walgreens, and the Walmarts, and the CVSs, and the Rite Aids basically continue to operate like they always have operated. Also when I say 50%, it is not 50-50, it's greater than 50% go through the retail.

For certain products, like Jublia and Solodyn, closer to 50% of that, but for many of our products traditional is much, dermatology products is much higher than 50%. And, yes, we've been making outreaches to specialty pharmacies. I'm not going to talk about the details, but the reception so far has been good.

Annabel Samimy - *Stifel Nicolaus - Analyst*

If I can go back to the question about the retail, so if that's the case at Walgreens and Rite Aid and all those are continuing to fill the prescriptions then why do you think the volumes in that channel are going to go down?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I'm not sure I ever said that they were going to go down. I think that --

Annabel Samimy - *Stifel Nicolaus - Analyst*

Are you talking about volumes overall, I guess? You were talking about volumes overall?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes, volumes overall. It's volumes and it's also average selling price. [113] for the quarter we gave all the prescriptions for free. We're continuing -- more people are going to use the cash pay option quite frankly. Doctors that were used to prescribe to specialty pharmacy will continue to do so and we'll get cash pay.



So our strategy is actually to keep the volume, and even if we get much lower prices in the short term because what we want to do is make sure doctors continue to not change behavior. And so that's our focus right now. We would rather take a short-term hit to protect our business for next year and beyond.

Annabel Samimy - *Stifel Nicolaus - Analyst*

Great, thanks.

Operator

Lennox Gibbs from TD Securities.

Lennox Gibbs - *TD Securities - Analyst*

Good morning, thank you. What is your assessment of the risk of potential repercussions from PBMs as you engage in reimbursement discussions going forward?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I think we've got this question earlier in terms of managed care. We, obviously, are reaching out to the PBMs, and so far those discussions have been productive.

Lennox Gibbs - *TD Securities - Analyst*

Okay, all right. Thanks very much.

Operator

Shibani Malhotra from Nomura Securities.

Shibani Malhotra - *Nomura Securities - Analyst*

Thank you. Question is for Mike. Mike, over the last six weeks we've seen two kind of major accusations aimed at the level of the Company, first, was around the pricing. And you decided to limit your pricing going forward. And the second was around the Philidor business, and you've decided to cut operations with Philidor.

So I guess my bigger picture question is, how do you, how do investors get comfortable that we're not going to see more issues which cause you to change your business practice going forward? And then, earlier on, you made a comment that Philidor management had assured you that they had done nothing wrong, in which case, was it premature for you to just stop working with the company?

And, I guess, the last part of that question is, from an investor standpoint, what is Valeant going to do differently in the near term, not just the long term, to kind of regain confidence and credibility so that we don't have to see 15% stock price drops every time a tweet comes out? Thanks.



J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

All right. A lot of questions there, Shibani. Let me start with the last one. I think delivery to results is the best way we're going to regain investor confidence, that I think, I think people are extrapolating one problem with Philidor which, again, Philidor's management has assured me there has been no wrongdoing to other parts of our business. And I think as we continue to deliver strong results and cash flows and time passes, I think that's the [catch] to regaining investor confidence.

In terms of -- let's see, what was the previous question to that -- in terms of other issues in terms of -- I think I addressed that earlier in terms of other things in the Company that are going on. Again, I think we were running a strong operation. I think if you look at our practices versus our competitors, I think, bear in mind, for example, in the emerging markets when we talk about inventories we have some of the lowest levels of inventories among our competitors.

Many of them would not have policies of two to four months in emerging markets. Many of them have much more inventory. So, again, I think you have to take our practices in the context of what's going on with what our industry standard practices. Similarly, in pricing, we're certainly not the only Company in the world that has taken pricing actions.

But I think really the way to restore investor confidence is what we've done. If we're viewed as aggressive, we are going to have to listen to that, as I said in my opening comments, and we're going to listen more to our critics and to the outside world. And I think just continuing to generate strong returns, strong financial results, and with that, we think we can get through this.

Shibani Malhotra - *Nomura Securities - Analyst*

Okay, can I just clarify though, Mike, I think part of my question was that there's two things you were accused of, and you changed your business practices accordingly, and it might -- and I just said other companies do this, as well. And in the Philidor case, you don't know yet if there was any wrongdoing, and some investors see that as defensive or reactive. And I just wanted to know how you feel about that and how we should get comfortable that you're not going to react every time there's an accusation?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, Philidor was very specific. First, there was the Citron report which claimed financial fraud and other things. They quickly came out and there was no financial fraud in terms of Valeant had to do. But then other allegations were made in terms of the practices of Philidor. And we felt, both management and the Board felt that given these allegations, given what was happening to our stock price, and given what many of our major shareholders were asking us to do that the best thing to do was to sever.

Most of our large investors felt that was appropriate course of action, as did we. So I don't think every time that someone criticizes us we're necessarily going to change, but we're going to listen to the criticism, and if it makes sense to change, we will. But there's -- and, again, Shibani, in terms of pricing, we have not made any forward-looking statements in terms of pricing. We have a group of people in the Company looking at pricing, and if we decide to come up with a new plan, we will. But I think Philidor was a very specific example, a very specific situation. We had had a short seller and we felt that the most appropriate action at that time was to separate our relationship with Philidor.

Shibani Malhotra - *Nomura Securities - Analyst*

Okay, great. Thanks.

Operator

Gary Nachman from Goldman Sachs.



Gary Nachman - *Goldman Sachs - Analyst*

Hi, Mike. I'm curious, how many physicians have you been able to canvass recently on how they plan to write for your products now versus what they did previously? You keep mentioning you feel good about that. And was it just with derms you are focused on or GI docs and ophthalmologists, as well? How confident are you with your standing in those other markets, not just derm?

Ari Kellen - *Valeant Pharmaceuticals International, Inc. - Company Group Chairman*

So look, it is standard practice for us to be in contact with our prescribers across all the businesses in the US. That includes GI, ophthalmology, dermatology, podiatry, you also have products going through primary care. So this is standard practice, it is not that we suddenly go out and meet with docs. But we are doubling down and spending additional time with members of the sales team and the marketing team.

And I can't comment on specific numbers, but there's dozens and dozens, if not hundreds, in the last few weeks, but, again, this is standard practice in terms of how we run the business. The same is true in GI, and Deb was at a series of meetings last week, the week before, we have the American Academy of Ophthalmology going on this week. We have team members out there, [Amy Chang], Tracy, [Cal Ichitzia]. So this is a customer facing organization, we focus most of our resources and time in contact with our customers, listening to them, educating, informing and tailoring our (inaudible).

Operator

Douglas Tsao from Barclays.

Douglas Tsao - *Barclays Capital - Analyst*

Hi, thanks for taking the follow-up. So, Mike, maybe a philosophical question, if I may. You sort of talked about listening to customers more and sort of listening to critics more. Just maybe touch on, have you rethought or your sort of decentralized model which has been proven so effective, but does that need any -- not being remade completely, but perhaps some modification given the much greater size of the business, and perhaps maybe sort of even rethinking the structure of your own management team and how you sort of look at the business? Thank you very much.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Thanks for the question. I think we've always done a pretty good job, we hope we're doing a good job of listening to customers. That has -- as Ari said, we are customer-facing organization, we spend a lot of time with customers. But I think what we do need to do is listen more to critics. We need to improve the size of our -- and capabilities in the investor relations area so that we can get back to investors more quickly.

We were undersized there, and changes like that. But in terms of decentralization, we think decentralization continues to be a huge strength. And what a lot of people sort of mix up decentralization with control. We have very strong controls. We have very strong financial controls. I think we have close to 800 or 1,000 people in our finance departments around the world. They all report up centrally into finance.

From a legal standpoint, and a compliance standpoint. Those are overseen by strong people back at headquarters. So the control aspect is very, very strong and we like to be decentralized is so that we can have people, locals, developing commercial strategies that make sense for those markets.

Those markets are very, very different. Healthcare continues to be very different around the world, and even if you look at the use of different pharmaceutical products and OTC products and surgical products and contact lenses, the mix of business is very, very different. When you go to agency, what kind of contact lenses are they selling there versus the United States, versus Europe, it's dramatically different. And that's the power of the decentralized model.



So in terms of the management team, the management team in any company will continue to evolve. I feel very good about the management team that we have today, but that doesn't mean we won't continue to make changes as appropriate going forward. I would also like to -- Tanya just gave me more detail on our inventory levels around the world, so just came back to Gregg Gilbert's question. So in terms of the US, again, it's 0.9 actually in terms of what our current inventory levels in the pharmacy -- for pharmaceuticals for everything but the Salix products, and Salix is 1.5 at this point in time.

Canada is one month, Latin America is two to three months, which is probably lower than is standard in the industry. Asia is three months, again, probably lower than what's standard in the industry. Emerging markets, Europe, everything is sort of three months or less which is below standard in the industry. The two countries where inventory levels are a little bit higher is Poland and Russia, not a significant number, not a significant dollar level.

Russia is due to the slowdown in our business. We were growing that business rapidly and the growth has slowed dramatically, so it's not more inventory, it is just the growth is slow. And that will be down to three months by the end of this quarter. And Poland is four months, and we are reducing that. We made a management change in Poland, we have a new GM. The last GM was not working out and so that's why those inventories are a little bit higher in Poland.

So, again, the main point in terms of the emerging markets is that unlike in the US where we have three more distributors for our pharmaceutical products, in most of these countries there's a dozen, two dozen, many, many distributors and a much larger number of products. So certified definition if you think about it, you need to have slightly higher inventory levels in those parts of the world.

Probably the most important thing is none of these have changed at all over the seven years in terms of what our inventory levels have been. Any one country might be higher or lower, but we have maintained inventory levels in the US and around the world pretty constant, as I think most of our competitors would have, as well. Now we'll take the next question.

Operator

Chris Schott from JPMorgan.

Chris Schott - JPMorgan - Analyst

Great, and thanks for taking the follow-up. Just so I'm clear on the new specialty pharmacy and access program that you're hoping to engage over the next 90 days, I guess, how quickly will that ramp once you have that program in place? How will that relationship be different than what you had with Philidor, and should we think about there being a substantially different net price for Jublia and other derm products once this is in place or will this, at least from a net price perspective, once this is in place, be somewhat similar to what was happening previously?

J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Sure. I think it will ramp pretty quickly once we get it in place. It could be with just one company or it could be with multiple companies. It will be contractual, just like our arrangement with Philidor. What we won't do is get an option to buy, so it will just be contractual.

And on our net selling price, actually our net selling price for Jublia and Solodyn and products like that were significantly lower through the specialty pharma channel largely because there is the cash pay option. And, obviously, if you're selling Jublia for, I think it used to be \$75 cash pay, and Solodyn was, I think, \$50. So that's much lower selling prices than -- so we would expect the average selling price through that channel to be lower just like it was through Philidor, but in terms of overall net selling price I don't think it will change.



Chris Schott - *JPMorgan - Analyst*

Great. Thanks so much.

Operator

Ronald Redfield, your line is open.

Ronald Redfield - *Redfield, Blonsky & Starinsky - Analyst*

Good morning. Have you had discussions with ratings agencies, or your creditors? What I would like to know, or we'd like to know, is there any possibility for liquidity disruption because of the situation, that's my first question? My second question is, what you mentioned, the option to buy Philidor for \$100 million. Do you still consider that an option to buy or do you consider it a purchase?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Let me answer the second one. We have an option to buy, we never exercised that option. We entered into a contractual wind down program with Philidor. Over the weekend, we signed a term sheet which will then be turned into a final contract, and Philidor will cease to exist 90 days from now, if not earlier. So the option was never exercised. Let me turn it over to Rob for the -- (multiple speakers)

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

We have frequent and ongoing dialogue with our rating agencies. In terms of our liquidity, we have a pretty attractive maturity profile with no significant maturities until 2018. Our mandatories for the rest of this year are \$23 million. In 2016, they are \$562 million. In addition, in 2016, term loan maturities of \$260 million and our ongoing interest expenses is \$1.6 billion.

We have no near-term funding needs, and we believe over time we will be able to access the debt market. Until we raise debt there are two maintenance covenants, secured leverage ratio of less than 2.5 times, and interest coverage ratio of 2.25 times. And at the end of Q3, we were at 1.9 times on the secured leverage ratio, and 3.6 times in the interest coverage ratio. Our cash flow is significant. You'd have to see a significant diminishment to our overall branded Rx business to come close to breaking any of those covenants.

Ronald Redfield - *Redfield, Blonsky & Starinsky - Analyst*

Thank you very much.

Operator

[Abza Qadri], your line is open.

Abza Qadri - *Unidentified Company - Analyst*

Good morning, guys. Following up on the balance sheet, can you just walk us through delevering targets and plans for the coming quarter and year?



NOVEMBER 10, 2015 / 1:00PM, VRX.TO - Valeant Pharmaceuticals International Inc Conference Call to Provide Business Update

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

We will cover that in the December guidance meeting. Our intent is to delever and to use our cash flow to pay down debt.

Abza Qadri - *Unidentified Company - Analyst*

Okay, thank you.

Operator

David Common from JPMorgan.

David Common - *JPMorgan - Analyst*

Good morning, thank you very much. I wondered if you could comment, just broad brush, not with precision, but about how much debt reduction might seem viable in the fourth quarter and 2016? I wonder if you could speak to whether you've seen any impact on volume for substitution or anything else in the form of Marathon drugs? And I just wonder if you have a rough sense of timing on the committee, will we have that in hand for your December update with us? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Sure, I will take the last two and a turn it back to Rob for the debt reduction. On Marathon, yes, we have seen declines in those products. And I think it speaks to the sort of free market that when you -- we increase price in the free markets are working and we've seen volume declines. I think that through contracting with hospitals directly we can actually get those volumes stabilized. In terms of the ad hoc committee, again, I cannot comment. It's an independent committee, so they will do, they will do their work and once the work is complete, they will report back to the Board.

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

Our mandatory for Q4, as I mentioned, are \$23 million. I don't anticipate that we'll be making any additional debt payments in Q4. And, again, we'll comment on 2016 in our December guidance call.

David Common - *JPMorgan - Analyst*

Okay. I apologize, but if I can just push a little bit further. There is certainly the possibility for several billion of free cash flow. Do you think that the great majority of it will go to debt reduction next year? Will it be --

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

No, I think we will -- the lion's share of cash flow generated next year will go towards debt reduction.

David Common - *JPMorgan - Analyst*

Very good. Thank you.



Operator

Gregg Gilbert from Deutsche Bank.

Gregg Gilbert - Deutsche Bank - Analyst

Just one follow-up for Ari, if I could. I know you and Mike are meeting with key physicians and customers, but can you comment on the morale and the level of engagement of your district managers and sales reps? I imagine that is something you're pretty focused on, and hoping you can continue to drive volume through this period and longer-term? Thanks.

Ari Kellen - Valeant Pharmaceuticals International, Inc. - Company Group Chairman

Yes, we are truly blessed with a fabulous field team, and, honestly, it's been incredibly motivating to see their confidence in the field, their courage in engaging with our customers. And Deb and Dave Wood, who is our national sales leader in the US, and the full MT couldn't be more proud of our colleagues as we travel around. Again, as Mike said, our customers are aware that -- we wake up in the morning and we were worried about their patients and our customers and doing what we can to serve them through supporting efforts in R&D, through launching of new products, and in, as Mike talked about, in trying to provide access solutions.

So there's always a normal rate of attrition. Frankly, that rate has declined and remains pretty low. And, again, we have a fabulous team of regional directors, district managers, and sales reps. And that's true not only in dermatology, it's true across all our other field forces which would include surgical and contact lenses. Mark McKenna is at a believe meeting, as we speak, in Boston. We have people out there. Tracy and Ray in ophthalmology (inaudible). Again, we are truly blessed by a fabulous customer-facing team, which by the way, includes MSLS and not just sales reps.

Gregg Gilbert - Deutsche Bank - Analyst

Thanks.

Operator

Alan Ridgeway from Scotiabank.

Alan Ridgeway - Scotiabank - Analyst

Hi, thanks, guys. Just circling back on the debt question and the cash flow. I believe in the Q3 call, you guys commented that you would likely be drawing the revolver this quarter and then repaying it off, and I'm just wondering if any of the impacts you're expecting on the business would change that plan?

Did you guys, or are you drawing the revolver and planning to fully pay it back by year end? And then, secondly, tied to that, if you draw the revolver, does that impact the covenants? And the last piece is, when the maintenance covenants change at the end of Q1, how are you looking at that now with potential negative impact on your business? And I'll leave it at that, thanks.

Rob Rosiello - Valeant Pharmaceuticals International, Inc. - CFO

Firstly, our current revolver draw is for \$845 million. We plan to pay down our revolver as part of our overall debt reduction plan. You are right that at the end of Q1, our interest coverage ratio moves up to 3.0. But we still feel comfortable about that covenant.



NOVEMBER 10, 2015 / 1:00PM, VRX.TO - Valeant Pharmaceuticals International Inc Conference Call to Provide Business Update

Alan Ridgeway - Scotiabank - Analyst

So that \$845 million, it won't necessarily all be paid off by year end?

J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

That's correct.

Rob Rosiello - Valeant Pharmaceuticals International, Inc. - CFO

I think that's correct. And to answer your other question, the revolver drawer is included in the quarter end covenant test.

J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

The draw, of course, is we closed on Amoun, and I think that was October 19. And we had, we paid \$500 million for Sprout, and we closed Synergetics. And then had a \$100 million payment to AC for Broda. So those were the main cash outflows. But, again, our focus now is we will continue to reduce the debt first with the revolver and then we will articulate our strategy for the rest of December.

Alan Ridgeway - Scotiabank - Analyst

Okay, thank you.

Operator

Ryan Firestone, your line is open.

Ryan Firestone - Ptarmigan Research - Analyst

Hi, Mike, thanks for taking my call. I was wondering if you can definitively say that there is no systemic [trouble] at Valeant very confidently. You don't sound very confident. I'm a little concerned about the Company's ability to rebuild this reputation, and so I'm wondering if you can reiterate your plans to restore the value in the Company's share price?

J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Well, I'm not sure you know me very well if you don't think I'm confident. I think we, the Company, are quite confident. We're pleased with the way the business is performing. We are actually pleased with the reaction from the dermatologist community.

As I mentioned, we are growing, sort of all of our businesses, primarily volume sort of around the world. I don't think there's any company, any pharmaceutical company, that has as much volume-based organic growth of our size out there. So I'm sorry if I haven't sounded confident to you, but we're certainly very, very confident.

Ryan Firestone - Ptarmigan Research - Analyst

Thank you very much.



Operator

Milun Patel from Overbrook.

Milun Patel - *Overbrook Management Corp. - Analyst*

Hi. I was wondering if you guys could talk about what percentage of sales and make (inaudible).

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I'm sorry, can you repeat that, please?

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

It was hard to hear.

Milun Patel - *Overbrook Management Corp. - Analyst*

I was wondering if you could talk about what percentage of sales for Wellbutrin XL is through the alternative distribution channel right now?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Very, very small, Wellbutrin XL sells through alternative fulfillment. Super small. Certainly less than 5% and probably closer to 1% or 2%.

Milun Patel - *Overbrook Management Corp. - Analyst*

Got it. And then on price action, what further is the new pricing strategy (inaudible) Salix you have some pricing power, is that still on the table?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Since we acquired Salix, we've taken no price increases in terms of XIFAXAN and our focus is, so all the growth is volume. And with our new IV FT indication what we're really focused on is making sure that all the patients that suffer from this terrible disease have access to this product and know about this product. So we haven't raised price, and we've never announced any plans to raise price in terms of XIFAXAN.

Milun Patel - *Overbrook Management Corp. - Analyst*

Great, thank you very much.

Operator

Dave Steinberg from Jefferies.



David Steinberg - *Jefferies LLC - Analyst*

Yes, thanks very much. I wanted to broaden up the question about morale and focus of the sales force and ask in the context of the whole Company, I would imagine all 22,000 of your employees are aware of the study, the drum beat of media reports and scrutiny and allegations. I'm curious, what's your view of the morale within the whole Company globally, and is the messaging from management?

And then, secondly, the Company has clearly had a focus on stock-based compensation, and are you concerned given the rapid change in the stock price that you're going to lose some key employees? And related to that is, what can you do to make sure you retain them in this environment?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Sure. So I think morale inside the Company, I think people are pretty upset, maybe even [pissed] at some of these allegations that have been made against the Company. I think the people in the Company know that they're not true.

We have we have a very ethical Company. Integrity, and people pride themselves on how we operate and so when the Company gets attacked, they feel they are attacked personally. So I think the silver lining is it is, again, it pulls the Company together and people are very, very determined to execute well in the most ethical way, but really, really deliver results.

Quite frankly that's within our control. It's in our control is delivering results. In many parts of the world, I'm not sure, like in Egypt, in Indonesia, I'm not sure there's a ton of headlines around Valeant, and, quite frankly, in most of these countries the name of our Company is even different, right. So we're Amoun in Egypt, we're Grossman in Mexico. We're Bausch & Lomb in many parts of the world.

So that insulates, I think, many of our divisions, even in the United States we operate as Salix, and we operate as Dendreon, and that is helpful, as well. So to date, we've had no real departures of note, and which is the positive. That being said, we have put in a retention program, not for the EMT members but for people below the EMT member levels. We used to design that Merck had used when they acquired Schering-Plough which seemed to work very well for them.

So we have instituted that retention program which compensates people for staying around for the next 12, 18 months. So I think that has been well received. And in terms of stock-based compensation, yes, there's a number, there's a number of people that are very much underwater in terms of that. But no one's complained. And what we'll do is really, really work hard to get the Company's value back to where it belongs to be. Once we can get this trading on fundamentals again, I think people feel very confident about the intrinsic value of the Company.

David Steinberg - *Jefferies LLC - Analyst*

And would you consider repricing options to make sure some of your key employees stay?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

No. I don't think we will be repricing any options.

David Steinberg - *Jefferies LLC - Analyst*

Thanks.

Operator

Annabel Samimy from Stifel.



Annabel Samimy - *Stifel Nicolaus - Analyst*

Hi, thanks for the follow-up. You talked a lot about the debt pay down, but on the third quarter call you also mentioned that the stock price remained at current levels, and now it's lower that you would consider share repurchase pretty seriously. With the debt pay down stance is that off the table now? Thanks.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I think it's largely off the table in the short term. I think that what we want to do is be as conservative as we can be for the foreseeable future.

Annabel Samimy - *Stifel Nicolaus - Analyst*

Okay, great. Thanks.

Operator

Alex Arfaei from BMO Capital Markets.

Alex Arfaei - *BMO Capital Markets - Analyst*

Thank you for taking a follow-up. A question on XIFAXAN and [IV SD]. My understanding is that you recently purchased a diagnostic to help identify these patients. Could you comment on that and whether or not you see that as a competitive advantage in this market? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I'm not sure in my opening comments that we recently launched IBSchek. That's sort of the name of the test. We purchased Commonwealth, and we do think that's going to certainly improve the awareness of the disease.

And I think the fact that we can control the marketing message and control how it is detailed to physicians, we'll do it in a way that I think will be an advantage for us from a XIFAXAN standpoint. All the data and the work on the test was done by the same doctor who was in -- played a key role in all the XIFAXAN trials, as well. So we do think -- and the early sales of that and the usage of that kit is very, very encouraging.

Alex Arfaei - *BMO Capital Markets - Analyst*

Thank you.

Operator

Josephine Shin from Alcentra.

Josephine Shin - *Alcentra - Analyst*

Hello, can you hear me?



J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

We can.

Josephine Shin - *Alcentra - Analyst*

Okay, hi. So without addressing the specific part of your guidance, when you think about debt reduction, what's the best part of the capital structure for you to deploy that generous amount of cash flow for next year. My rough estimates says that you have to reduce close to \$3 billion or more of debt, you don't have to comment on that specific number, but is that mostly in your opinion better deployed in the form of secured debt reduction, or do you see value going after some of the much lower priced unsecured debt at this point?

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

So we will remain flexible in terms of which tranches we will go to, as you point out, that those will be important decisions to make. I want to repeat what Mike has said, our priority will be paying down, will be paying down debt. We have two bonds that are callable right now. We, obviously, have the ability to go into the open market, as well. We'll make those decisions opportunistically.

Josephine Shin - *Alcentra - Analyst*

Thank you.

Operator

Shibani Malhotra from Nomura Securities.

Shibani Malhotra - *Nomura Securities - Analyst*

Hi, thanks for taking the follow-up. Again, Mike, this is for you. You've always been a very shareholder-focused CEO. And we hope Valeant gets through this, but we do know that Valeant is not trading on fundamentals right now, there's a lot of fear in the market. And I guess my question is, what contingency plans does the Company have to protect its shareholders in case the situation continues and the stock doesn't recover or continues to fall?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, I'm not sure we have contingency plans per se. What we're planning on doing is continue to operate this business and demonstrate strong revenue growth, demonstrate strong cash flows. We'll get through this period. Again, we have a very ethical Company, and we're very confident in terms of the future.

I think part of the purpose of today's call was to reassure investors that the business itself is doing well. We are going to have a short-term hit in dermatology. But we have a plan to get that back and we're confident that we will get the dermatology business back. And it's a very difficult period. It's difficult for our investors, it is difficult for our management team.

It's, obviously, difficult for me, as well. But we are focused and we are determined, and the best part of every day that we have is the day -- the part of the day that we're out with our customers because our customers, the doctors, truly do appreciate the products that we have. They really appreciate the people we have and many, many of them are really rooting for the Company.

And I think the Company is going to survive. Our cash flows are strong and our momentum is good. We just have to work through these issues.



Shibani Malhotra - *Nomura Securities - Analyst*

Great. Thank you, and good luck, and we hope you kind of get through this, as well. Thanks.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Thank you, Shibani.

Operator

Eric Dubowsky from Alpine Associates.

Eric Dubowsky - *Alpine Associates - Analyst*

Hey, guys, thanks for taking my question. I'll make it quick here, following up on some of the questions on the debt repurchases. Do you guys have any restrictions in terms of buying debt in the open market, or anything in your facility that prevents or cap out the amount of debt you can purchase early?

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

No.

Eric Dubowsky - *Alpine Associates - Analyst*

Thank you very much.

Operator

Umer Raffat, your line is open.

Umer Raffat - *Evercore ISI - Analyst*

Hi, guys, thanks for taking my follow-ups, as well. So, Mike, you mentioned there will be a new Valeant access program in place over the next 90 days, but one of the questions I had was, as for your prior press release, you are going to have products available, the Philidor products available through other independent and major pharmacy chains. Has that been put in place already?

And are there volumes flowing through that, that's one? And then, also on your Goldman Sachs share sale, not by Goldman, my question is, did you have an option of putting other assets for a part of it as collateral to prevent that sale? And if you could give us any color on Laizer Kornwasser, I would really appreciate it? Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

All right. So in terms of scripts, dermatology scripts today, physicians have, are writing our scripts and they can encourage a patient to go through a specialty pharmacy or go to retail. But the patient in the end makes their own decision. Our products are available through other specialty pharmacies.

Specialty pharmacies buy their products from the same wholesalers that traditional pharmacies do. So if they have a script for Jublia and they go to a specialty pharmacy that specialty pharmacy will adjudicate and send that script to the patient. What we don't have is a specific program in terms of, like we did with Philidor, where for example, we took on the risk of adjudication. So we don't have programs like that with specialty pharmacies.

But today, yes, people can get our scripts through specialty or through retail. And so what we're going to do over the next 90 days is develop a new program. Many of the elements that, for competitive reasons we're not going to talk about today, and would establish a pharmacy/pharmacies, that, again, will be designed to make life easy for our physicians and provide affordable medications to our patients.

In terms of Laizer, he left mid- this year to go to a non-profit, work for a non-profit organization. And the share sales, yes, Goldman did not give me the opportunity to put any more collateral, so I wish they had but they didn't. They just went ahead, but I will say that's the only -- so I have no other loans or anything else in terms with any other brokerages, so those were the only shares that I had that were used as collateral.

Umer Raffat - *Evercore ISI - Analyst*

Thank you.

Operator

David Common from JPMorgan.

David Common - *JPMorgan - Analyst*

Great, well, thank you again. Basically, I think you answered most of what I was going to speak to which is that you have no current limitations on open market repurchases of debt. Did you recently have such limitations, and would that be how you'd see going through 2016 at any time you could be potentially repurchasing your bonds? Thank you.

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

I'm not aware of any previous limitations. As we said, we are [making] committed and it is our priority to reduce leverage. We will target the various tranches of debt opportunistically, and certainly including potential open market debt payback.

David Common - *JPMorgan - Analyst*

Thank you.

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, thank you, everyone --

Rob Rosiello - *Valeant Pharmaceuticals International, Inc. - CFO*

If we have any material information we can be restricted from purchasing on that particular time.



NOVEMBER 10, 2015 / 1:00PM, VRX.TO - Valeant Pharmaceuticals International Inc Conference Call to Provide Business Update

J. Michael Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Sorry, Rob. So, again, well, thank you, everyone, for all of your questions and for all of your time. As a closing reminder, we are moving up our guidance call from January 7 to sometime in December. Again, I'd like to emphasize that we do remain confident that the long-term prospects, or the mid- to long-term prospects for dermatology remain very strong and we will work through the disruption as quickly as we can.

Our remaining businesses, which the bulk of our businesses, all continue to perform well. And we're now, as management, we're going to return our focus to the business and work as hard as we can to continue to deliver excellent results for our shareholders. So thank you.

Operator

This concludes today's conference call. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.