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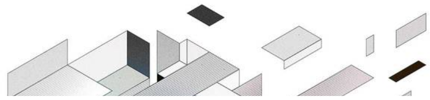
ROB MAGAZINE

Inside Valeant's fall

How an analyst, a hedge fund manager and a journalist exposed the fatal flaws in CEO Michael Pearson's strategy and ended a drug-fuelled capital markets rampage



CHARLES WILLIAMS

BRUCE LIVESEY
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0 Comments

U.S. Senator Elizabeth Warren is renowned for pillorying captains of industry when the opportunity presents itself.

Such an occasion arose one cool, overcast day in April of last year, when J. Michael Pearson sat in front of a group of senators in a wood-panelled chamber on Capitol Hill in Washington, D.C. As the recently fired (but still acting) CEO of Laval, Quebec-based Valeant Pharmaceuticals International Inc., Pearson was appearing before the Senate’s Special Committee on Aging to answer for Valeant’s penchant for jacking up drug prices to unholy levels. The room was packed with aides, reporters and anxious businesspeople.

Warren, a Democrat from Massachusetts, is a former Harvard law professor with a rapier intelligence and a willingness to be blunt. At one point she drilled down on Valeant's use of "patient assistance programs." Warren felt that such programs—which typically cover some or all of a patient's co-payment—were a cunning way to keep consumers using overpriced drugs after the company hiked prices.

"What is the return to Valeant on the money that you're currently putting into the patient assistance program?" Warren demanded pointedly.

Pearson, a fleshy 57-year-old with grey hair and a long puffy face, was looking rather whipped despite his natty charcoal suit and burgundy tie. He slumped noticeably in his chair. "I don't know," he replied. "In fact, for patient assistance programs, we don't look at it as an investment."

"Don't tell me that you don't look at it as an investment," snapped Warren, waving her hand dismissively at him. "The point I am trying to get to is this is obviously a profitable undertaking for your business, and I just want to know what your return on investment is on that."

"Senator, I've never seen a return on investment on overall patient assistance programs," said Pearson evenly.

"Well, let me ask you a question in a different direction. Why don't you use these co-pay reduction programs with federal government programs like Medicare and Medicaid?"

"Um, my understanding is we are not allowed to."

"Yup," responded Warren. "Because it's illegal. And that is exactly the problem here. These programs are illegal because Medicare and Medicaid understand that the programs are scams to hide the true cost of the products from the consumers and drive up the costs for all of the taxpayers."

This encounter, and the allegations it spawned, marked another blow against Pearson and his eight-year tenure running Valeant. By the time of the Senate hearings, the company was in full-blown crisis, having been accused of operating a scheme to rip off the U.S. private health insurance system—and Valeant's patient assistance programs played a critical role. Within months of Pearson's appearance, most of his executive team and Valeant's board were out the door.

Once a darling of Wall Street and Bay Street investors and analysts, Valeant is now likely to go down in the history books as one of the largest corporate debacles in North America.

The drug company, which offers a wide range of products in dermatology, gastrointestinal medicine, eye health, neurology and cardiology, saw a swift and remarkable rise during Pearson's tenure, to the point that it briefly became the largest corporation in Canada—even larger than Royal Bank—before it came crashing down to Earth. Its stock rose from $50 a share in 2012 to a high of almost $350 in the summer of 2015, and then collapsed to its current value of less than $20, wiping out more than $112 billion in investors' capital in just over a year. "To put that into context, this was probably one of the most widely held stocks in all of Canada," explains Jerome Hass, portfolio manager at Lightwater Partners Ltd., a Bay Street hedge fund. "The entire value of the Canadian hedge fund industry is about $30 billion. So about three times as much money has been lost on this one stock as the entire value of the hedge fund industry in Canada."

Now Valeant is facing roughly a dozen separate investigations, including those by the U.S. Securities and Exchange Commission (SEC), the U.S. Department of Justice, U.S. Attorney's Offices in New York and Massachusetts, and both houses of Congress. It's been hit with numerous shareholder lawsuits, with current and former Valeant executives and directors accused of securities fraud and insider trading. In mid-March, high-flying Wall Street hedge fund manager Bill Ackman, one of the company's biggest boosters and shareholders, shocked the investment world when he suddenly cashed out his position and resigned from the board. But the most serious development came last November, when two top executives at Philidor, a shadowy pharmacy network linked to Valeant, were indicted for fraud and conspiracy in connection with running a kickback scheme. If they're convicted, it suggests that what was briefly the largest corporation on the Toronto Stock Exchange had strong ties to executives who committed fraud on a massive scale.

How could such a thing happen? There's plenty of blame to go around. But when we approached the analysts on Bay Street and Wall Street who aggressively promoted the stock, they wouldn't talk. Former employees, many of whom were paid severance packages to keep quiet, wouldn't comment. Michael Pearson himself, who went on a strange extended leave at the height of the crisis, has seemingly gone into hiding and hasn't spoken to anyone. Only one group of people would speak on the record: a small band of largely ignored independent analysts, hedge fund managers and journalists who first noticed that something was rotten at Valeant and tried to sound the alarm.

CHARLES WILLIAMS

The outsider: Dimitry Khmelnitsky

Standing all of 5'6", with friendly elfin features and thick glasses, Dimitry Khmelnitsky would not be described as an intimidating presence. But that doesn't mean he isn't feared in some quarters. His analyst reports—the first in Canada to warn that Valeant's numbers didn't add up—can be credited with helping to expose the company's flaws.

As vice-president of Veritas Investment Research Corp., an independent equity research firm, the 39-year-old spends his days working from a spartan office located on the 31st floor of a downtown Toronto office tower, sifting through financial statements for telltale signs of malfeasance. But despite his central location, Khmelnitsky is an outsider—which perhaps explains why he was one of Valeant's earliest critics.

Khmelnitsky's facility with numbers runs in the family. He was born in the former Soviet Union to a mathematician father, who moved the family to Israel to escape the collapsing socialist economy. In 1999, Khmelnitsky moved to Toronto to study business at York University, where he met his future wife, who's also Russian. He subsequently got a degree in accounting, working at Ernst & Young before joining Veritas as an analyst in 2006. By then, Veritas was emerging as one of Canada's top investigative accounting shops.

Khmelnitsky began looking at Valeant in 2011, not long after the company merged with Biovail Corp., a Canadian drug company. "We were interested in Valeant because it had a non-standard business strategy," he says.

Editor's note: Bill Ackman's big fail

Ackman should have realized Valeant's strategy would run into trouble. Eventually, you simply run out of desirable companies to buy.

That strategy, which involved investing next to nothing in developing new drugs, was the brainchild of J. Michael Pearson, who joined the company as CEO in 2008. At the time he was hired, the native of London, Ontario, was at the top of his game. He'd come from a lower-middle-class background, and studied at Duke University and the University of Virginia before joining the giant consulting firm McKinsey & Co., working his way up the ranks to become a director. During his 23 years at McKinsey, where he was promoted to head up its global pharmaceutical practice, Pearson became convinced that drug companies had bloated costs and most of their spending on research and development was a waste of money, producing few new medicines. As Valeant's CEO, he adopted an innovative strategy: acquire companies that had surefire products, chop R&D and then jack up the prices of existing drugs before the emergence of cheaper generics.

With backing from Valeant's board and investors, Pearson went on a corporate buying spree almost as soon as he landed in the CEO's office. Between 2008 and 2014, he snatched up more than 100 companies and licences and the effect of this impressive string of highly leveraged acquisitions on the company's books was astounding: Annual revenues rose from $757 million (U.S.) in 2008 to $8.3 billion (U.S.). Debt eventually shot up to $31 billion (U.S.). By 2014, Valeant employed 17,000 people around the world and sold 1,600 products. Yet during this same period, Pearson slashed research and development down to as little as 3% of sales.

Valeant's most significant deal at the time was the 2010 acquisition of Biovail. Above all else, Pearson was attracted to the company's offshore tax structure. This was an "inversion" deal, in which a company moves its headquarters to a lower-tax locale. By merging with Biovail, Valeant went from being an American company to a Canadian one, technically speaking, with one of the lowest drug company tax rates in the world—as low as 3% in some years. (Biovail took advantage of Canada's tax treaty with

Barbados, allowing it to be taxed at the Barbadian rate.) By 2014, Valeant had saved $2.5 billion (U.S.) in taxes as a result of the Biovail marriage.

Profits were soaring and analysts loved the Valeant story. Heavyweight investors on Wall and Bay streets were pouring tens of billions into the stock, with most of the 23 analysts covering it in the summer of 2015 rating it as a "buy."

But as Khmelnitsky continued to follow Valeant, he began to see some alarming things. "If you take some of their major assertions…and you try to verify those statements with the information in their audited financial statements and quarterly reports and other facts, they don't coincide," he says. In 2012, for example, he found the company had misled analysts about why sales had not met expectations, claiming they were affected by seasonal changes. But its annual report said differently.

In 2014, Khmelnitsky began setting up meetings with institutional investors to warn them to stay clear of Valeant. But some of them didn't want to hear his message, and sometimes things got chippy. "We would get kicked out in a nice way," he recalls. "They would say to us, 'Talk to Valeant management—you guys are missing it, Valeant's management is revolutionizing the industry.'" Khmelnitsky was being made to feel like the boy who cried wolf.

CHARLES WILLIAMS

The maverick: John Hempton

"Valeant is a Wall Street creation," insists John Hempton from his small office above a shopping centre in the suburbs of Sydney, Australia. Tall, toothy, brash and very smart, the 50-year-old spent years working as a tax policy officer for the New Zealand and

Australian governments, helping them to crack down on tax cheats. "I can explain Donald Trump's tax returns," he jokes.

In 2000, Hempton went to work for Platinum Asset Management Ltd., an Australian investment firm. He became a junior partner, buying into the firm at a low price, and when it went public in 2007, its market cap quickly rose to $4 billion—allowing him to retire a wealthy man at age 39. But his wife soon tired of him lounging around their beach house. "She said if I didn't go back to work she would leave me," says Hempton. So in 2009, he founded his own hedge fund, Bronte Capital Management Pty. Ltd., which today has more than $100 million (U.S.) in assets.

Hempton sums up his investment strategy as "long on quality and short on crap." He developed a reputation for carrying out meticulous on-the-ground research to ensure companies he invests in are what they say they are: He once visited a hair salon in Bangkok to investigate how Henkel AG marketed its hair dye, and has flown as far as the Middle East to conduct research. It's paid off: He shorted Sino-Forest Corp. before it imploded, and he not only shorted but blew the whistle on Longtop Financial Technologies Ltd.

Hempton believes investors can tell a lot about a company by the quality of the people in its governing positions. One of the things that concerned him about Valeant was the appointment of Norma Provencio, a health-care financial advisory consultant, to the company's board in 2007, where she became chair of its audit committee. Two years earlier, Provencio was overseeing the audit committee of a company called Signalife Inc. that was faulted for not having sufficient internal financial controls. Meanwhile, Signalife's chief counsel had cooked up a scheme to illegally pump up the company's stock; he was eventually sentenced to 17 years in prison.

But Hempton really bore down on Valeant in June, 2014, a few weeks after the company announced it was going to make a hostile bid for Allergan Inc., a pharmaceutical giant famous for producing Botox. At the time, Hempton saw that Valeant was trading at 10 times its sales, which he says is "pretty ridiculous," pointing out that Pfizer trades at four times sales and Google six times. "The number of companies that have traded at 10 times sales with more than $1 billion worth of sales that have worked out all right for shareholders? You could count them on the fingers of your hands," he remarks.

Hempton shorted Valeant's stock when it was

$130 a share and started writing a series of blog posts about the company as he embarked on a deep dive into its financial statements. His findings backed up his hunch. Hempton wrote increasingly lengthy and snarky posts, questioning Valeant's accounting, its tendency to overpay for assets and even its use of Gulfstream corporate jets ("the fastest, longest range and most expensive corporate jet on the market"). Yet the stock kept climbing through 2014 and into 2015. "It was an exercise in some difficulty," says Hempton. After all, if the stock didn't fall, he was on the hook to lose millions.

Valeant's rising stock was being driven by a herd mentality on both Bay and Wall streets. Jerome Hass at Lightwater, whose firm began shorting the drug company's stock in 2015, says Valeant became an investment bank darling because it was a serial acquirer. "Bay Street loves firms that need to raise capital," he says. "And serial acquirers raise capital regularly. So if you are an analyst on Bay Street, quite frankly, you have a lot of pressure to be positive."

Jay Strosberg, a Windsor, Ontario-based lawyer involved in a shareholder class-action lawsuit against Valeant, says Bay Street didn't look critically at Valeant because "it's not in their financial interest to do so. What I mean by that is the underwriters make millions and millions of dollars underwriting the stock—and the analysts are working for the same [brokerages]."

Then, in early 2015, Hempton caught a whiff of something so scandalous that even the most bullish analyst couldn't ignore it. He began hearing more about a mysterious, little-known company called Philidor that was linked to Valeant. "We had no idea what it did," he says. "But we knew something was wrong."

CHARLES WILLIAMS

The digger: Roddy Boyd

Roddy Boyd, who runs a one-man not-for-profit journalism outfit called the Southern Investigative Reporting Foundation (SIRF), first took an interest in Valeant in 2014. That's when Wall Street short seller James Chanos, who runs Kynikos Associates LP, announced he was shorting its stock due to the pharmaceutical company "playing aggressive accounting games."

Working from his small office in Wilmington, North Carolina, Boyd, formerly a reporter who specialized in uncovering corporate fraud for *The New York Sun*, *New York Post* and *Fortune* magazine, began examining Valeant's financial statements, calling analysts and anyone else who would talk to him. He soon stumbled across an online chat board for drug reps called cafepharma.com. One day in the summer of 2015, he found some posts from reps mentioning a company called Philidor—the same company Hempton was hearing about.

But when Boyd spoke to analysts and even some managers at Valeant, "no one had ever heard of Philidor." Intrigued, Boyd began putting in 12-hour days trying to figure out what Philidor was, collecting documents and making freedom-of-information requests. He soon realized Philidor was enormously important to Valeant.

Boyd's big break came when he heard about a lawsuit launched by Russell Reitz, a pharmacist in sleepy Camarillo, California, a small city 80 kilometres northwest of Los Angeles. Reitz had founded a pharmacy called R&O in 2012, selling it two years later to a Delaware-registered company called Isolani. By then, R&O had licences in 34 states to distribute drugs. "[Reitz] was very quiet, very methodical," says Boyd.

Soon after he sold R&O, Reitz, who stayed on to manage the pharmacy, became suspicious of the huge volume of prescription drug sales going through his store. He began seeing sales in states where R&O had no registration to operate, for drugs his pharmacy had never before supplied. In March, 2015, Reitz received an audit from one of his pharmacy benefit managers that turned up mysterious prescriptions with Reitz's name on them, being dispensed to patients he had never heard of.

Reitz and his lawyer began researching Isolani and found it was affiliated with Philidor, a specialty pharmacy company based in Hatboro, Pennsylvania. Reitz also discovered that Philidor had been prevented from selling drugs in California. He began to worry R&O was being used as a front to commit fraud, so he started stashing away reimbursement cheques from insurance companies as they arrived at the pharmacy, rather than forwarding them to his company's new owners.

Events came to a head in September, 2015, when Reitz received a letter from Robert Chai-Onn, Valeant's general counsel, claiming that Valeant was owed $69 million (U.S.) by R&O for "outstanding invoices." In short, Valeant wanted the cheques Reitz had been putting aside. Yet according to Reitz, R&O had never received a single invoice or demand for payment from Valeant prior to getting this letter. Reitz decided to sue Valeant, claiming that either he and Valeant were victims of fraud, or "Valeant is conspiring with other persons or entities to perpetuate a massive fraud against R&O and others." (He eventually settled out of court, and Valeant did not admit to any wrongdoing.)

Boyd now had evidence linking Valeant to Philidor, and he reached out to Hempton after reading his blogs that summer. They agreed to publish their findings about Philidor in October, 2015. Little did they anticipate the storm that decision would trigger.

The Philidor Manoeuvre

As Hempton learned more about Philidor and its ties to Valeant, he became convinced it was a scam designed to bilk the U.S. private health insurance system. More and more, it looked like Philidor had been established because Pearson's business strategy ran smack into a wall.

For one thing, the CEO's acquisition strategy began to fail. "It's flawed in that long term, it becomes harder and harder to acquire companies," says Khmelnitsky. "This model can work for the very short term when you're small in size. As you buy bigger companies, what happens is that you create this whole mergers and acquisitions wave in the industry—there are copycats, and they start buying too." With more competition, finding reasonably priced targets gets tougher, and indeed, Pearson's attempt to buy Allergan in 2014 was rebuffed when the company found a buyer in another global pharmaceutical company called Actavis.

In early 2015, Pearson instead bought Salix Pharmaceuticals Ltd. for $15.8 billion (U.S.), including debt. But last year, Valeant tried to unload Salix for $10 billion (U.S.)—less than two-thirds of the value of the original deal—and found no takers. As one company source says: "Pearson overpaid for Salix by something like six or seven billion dollars."

Moreover, because the R&D budget had been slashed, few promising new drugs were in the pipeline. For a while, Pearson drove sales by jacking up drug prices. For example, the retail price of a tube of Targretin gel, a topical treatment for cutaneous T-cell lymphoma, rose to $30,320 (U.S.)—18 times what it was selling for in 2009. Last year, one U.S. Senator said she had a list of 20 Valeant drugs whose prices had risen by more than 200% in just a few years.

But Valeant's sky-high fees were starting to get blowback from customers. The creation of Philidor sidestepped this problem and became a method for generating sales.

In the U.S., unless a doctor writes a prescription specifying no substitutions, pharmacists are obliged by insurance companies to give patients the cheapest drugs on the market. This meant Valeant's expensive products were facing falling demand. Pearson's strategy of buying pharma companies and increasing prices had a fatal flaw—those drugs would eventually face competition from cheaper generics.

According to an indictment issued last November by the Southern District of New York U.S. Attorney's Office, Philidor was created in early 2013 with help from Valeant. Two people were critical to its operation: Gary Tanner, a former manager with a company Valeant had acquired, and Andrew Davenport, who became Philidor's CEO.

Tanner was an expert in the use of patient assistance programs (PAPs) and alternative fulfillment strategies. These plans are used by drug companies as carrots to encourage patients to buy their medicines directly from them. After patients received a prescription from a doctor, they could take it to Philidor, which would enroll the patient in Valeant's PAP, a subsidy program that covered most (if not all) of the cost of an expensive Valeant product. Philidor then submitted a claim to the patient's insurance company directly on the patient's behalf. The idea was to make Valeant's drugs more accessible to patients by covering the cost up front.

Valeant's spending on patient assistance programs increased more than tenfold from 2012 to 2015, from $53 million (U.S.) to $600 million (U.S.), with expectations it would reach over $1 billion (U.S.) by last year.

Tanner oversaw this whole operation, apparently having an office on both Valeant's and Philidor's premises. He had access to Valeant's top executives, including Pearson. In fact, according to the indictment, in the fall of 2014 Tanner e-mailed Pearson a 20-page presentation describing Philidor's future prospects.

There was a bit of an art to getting insurance companies to remit the funds for Valeant's higher-priced drugs. Sometimes the insurer would just refuse to pay. "If the insurance company chose not to pay, Valeant just wore it," says Hempton, meaning the company wrote off the cost. But Hempton says the profits generated when the insurance company did pay made up for when they did not.

Over time, insurance companies began to balk more at paying for Valeant drugs. "So what happens is Philidor decides it needs to diversify the number of pharmacies it uses, so it starts buying suburban pharmacies—especially those with mail-order licences," says Hempton. Indeed, Hempton managed to compile a list of 76 so-called phantom pharmacies.

Incredibly, if an insurance company wouldn't pay Philidor for the expensive drugs, the pharmacy instructed its staff to try again using the identification number of a partner pharmacy to secure payment, according to shareholders' lawsuits. Philidor even had a training manual for its employees that said: "We have a couple of different 'back-door' approaches to receive payment from the insurance company." If the insurer asked a doctor to explain why the patient needed a costlier Valeant drug rather than a less-expensive alternative, Philidor employees would sometimes fill out the paperwork for the doctor. Workers were told to change codes on prescriptions in some cases so it would appear that physicians required, or patients desired, Valeant's brand-name drugs.

Philidor and its network of pharmacies allowed Valeant to jack up drug prices. For example, according to a shareholder lawsuit, Wellbutrin XL, an off-patent antidepressant Valeant sold through Philidor and its pharmacy network, saw its price increase from less than $6,000 (U.S.) to $17,000 (U.S.) for a year's supply of the drug, compared to $360 (U.S.) for a year's supply of a generic equivalent. This allowed Valeant to double the revenue generated by Wellbutrin XL.

In total, Philidor contributed roughly 10% of Valeant's sales—and 50% of its organic growth. Valeant's board and top executives appeared to be well aware of Philidor's operation, too: They visited the company's premises on at least two occasions, according to the indictment.

Meanwhile, the indictment further alleges that

Tanner and Davenport got rich by skimming profits from Philidor. Davenport received $40 million (U.S.) ($50,000 of which he is accused of spending on a wine cellar), and funnelled $10 million (U.S.) to Tanner. Tanner was fired by Valeant in the summer of 2015 and went to work directly for Philidor, before it was shut down in January of last year. Both men were indicted last fall for a host of charges, including money laundering conspiracy and honest services wire fraud. None of these allegations have been proven in court.

'Valeant has become toxic'

By the time Boyd and Hempton published the results of their investigations into Philidor in October, 2015, Valeant was already in hot water, attracting attention from Senate and congressional committees over its high drug prices. Los Angeles–based short seller Andrew Left had been issuing critical reports on the company, soon dubbing it a "Pharmaceutical Enron." The stock was already falling, having peaked that summer.

But the Philidor revelation changed everything, attracting a whole new level of scrutiny from regulators and the mainstream business press, with one *New York Times* columnist labelling Valeant "a sleazy company." *The Times*, *The Wall Street Journal*, Bloomberg, *Vanity Fair* and other media outlets began unearthing a raft of damaging news.

Behind the scenes at Valeant, internal e-mails reveal how the crisis was affecting the company. Bill Ackman, the controversial Wall Street hedge fund manager and CEO of Pershing Square Capital Management, which had sunk more than $3.3 billion (U.S.) into Valeant's stock, was among those panicking. Ackman began sending Pearson a steady stream of notes reprimanding and cajoling him. "I don't think you are handling this [crisis] correctly and the company is at risk of getting into a death spiral as a result," he wrote. In an other e-mail to Pearson, Ackman wrote: "Valeant has become toxic" and, "You have previously made the mistake of waiting while Rome was burning. There is now a conflagration."

Soon Pearson's health began to deteriorate: On Christmas Eve of 2015, he checked into a hospital suffering from a severe case of pneumonia. By the time he emerged, he was walking with a cane. Pearson would stay away for a total of two months.

And then, just as he announced he was returning to his post, Valeant said it wouldn't be able to file the previous year's financial report due to accounting problems with Philidor. Valeant also disclosed that it was being investigated by the SEC, and its inability to file could cause it to breach the terms governing some of its $31 billion (U.S.) in debt. The stock closed down more than 50%. For Dimitry Khmelnitsky, this was a moment of vindication. "Pearson finally admitted that his business strategy was completely unsustainable."

The company cleaned house, ushering out Pearson. Layers of management and directors streamed out the door. As the stock sank through 2016, most of the Wall Street investment firms that had invested heavily in Valeant found themselves knee deep in red ink. Pershing Square alone is estimated to have lost at least $3 billion (U.S.)—making the drug company Ackman's worst ever investment. Despite insisting for months that Valeant had a good chance of turning itself around, in mid-March Ackman announced he would cash out his remaining stock and step down from the board, suggesting that even he had given up hope.

With Pearson now gone, Valeant hired Joseph Papa as its new CEO. Papa has 35-plus years working in the pharmaceutical sector, with previous stops at companies such as Watson and Novartis. Yet Papa had left his former firm, a pharmaceutical company called Perrigo Co. plc, in poor shape. He now faces a Herculean task, wrestling with Valeant's massive debt load, as well as potential fines and lawsuits, ongoing investigations and a bevy of underperforming assets.

Papa's prime focus is on reducing debt. This past January, the company sold $2.1 billion (U.S.) in assets via two big deals. It may try to sell $8 billion (U.S.) more. In late February, Valeant announced its 2016 results, and the news was not good: Each of the company's three units saw flat or declining sales. It's now predicted that generic competitors will pummel revenue and profits this year and into 2018. "It still doesn't appear that management has a realistic outlook on its organic growth," Irina Koffler, of Mizuho Securities, told her clients while cutting her price target on the shares to $9 (U.S.).

The larger problem, says Khmelnitsky, is that Valeant's business model is now broken. "You can no longer do acquisitions—and their business model revolved around making acquisitions, firing people, cutting R&D and moving intangibles offshore," he says. "So that leaves them essentially going back to the model they'd said was stupid—where they have to grow internally."

Meantime, the victims of the company's collapse continue to multiply. Canadian investors lost tens of billions of dollars. By last summer, T. Rowe Price Funds, a Baltimore-based mutual fund giant (which at one point held a 6.4% stake in Valeant), along with institutional investors Alleghany Corp., TIAA-CREF and CalPERS, filed lawsuits against Valeant, accusing the company of securities fraud for failing to disclose the use of Philidor.

And then there are the small investors, like Brian Firestone, an unemployed accountant in his 50s who lives in Atlanta. Firestone invested the bulk of his savings in Valeant's stock in October, 2015, when it was at $109 (U.S.). ("I am not a diversified investor," he explains.) Since then, Firestone saw the value of his holdings fall by more than 70%, wiping out his brokerage account and causing him no end of restless nights. "I wish I never got involved in the pharmaceutical industry," he says.

Firestone still has a lot of money tied up in options on Valeant, hoping the company will be revived. In the meantime, he's had to downsize his lifestyle dramatically. "The mortgage of my house is getting paid for by the government, I eat less and don't go out," he says. "I have lost some weight. If things don't turn around, I am truly cooked."

Toronto, Montreal, Vancouver win Street cred amid Brexit, Trump

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