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Valeant's Drug Price Strategy Enriches It, but Infuriates Patients and Lawmakers

By Andrew Pollack and Sabrina Tavernise

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J. Michael Pearson has become a billionaire from his tough tactics as the head of the fast-growing Valeant Pharmaceuticals International.

And consumers like Bruce Mannes, a 68-year-old retired carpenter from Grandville, Mich., are facing the consequences.

Mr. Mannes has been taking the same drug, Cuprimine, for 55 years to treat Wilson disease, an inherited disorder that can cause severe liver and nerve damage. This summer, Valeant more than quadrupled its price overnight.

Medicare will now have to cover about $35,000 for the 120 capsules he takes each month, and he will have to pay about $1,800 a month out of pocket, compared with about $366 he paid in May.

"My husband will die without the medicine," said his wife, Susan, who is now working a second part-time job to help pay for health care. "We just can't manage another two, three thousand dollars a month for pills."

Cuprimine is just one of many Valeant drugs whose prices have spiked as part of the company's concerted strategy, which has richly rewarded its investors and made it one of Wall Street's most popular health stocks.

But Valeant's habit of buying up existing drugs and raising prices aggressively, rather than trying to develop new drugs, has also drawn the ire of lawmakers and helped stoke public outrage against the growing trend of higher and higher drug prices imposed by big drug companies. This year alone, Valeant raised prices on its brand-name drugs an average of 66 percent, according to a Deutsche Bank analysis, about five times as much as its closest industry peers.

Some presidential candidates have also seized on the issue. Hillary Rodham Clinton, who is seeking the Democratic nomination, called for efforts to control "price gouging" after a public outcry over the actions of Turing Pharmaceuticals, which abruptly increased the price on a drug to $750 a tablet from $13.50.

And last week, Democrats on the House Committee on Oversight and Government Reform demanded that Valeant be subpoenaed for information about big price increases on two old heart drugs that the company acquired in February.

The threat of government action is making the pharmaceutical industry nervous. A big sell-off in biotechnology stocks over the last two weeks helped wipe out the sector's gains for the entire year. Valeant's stock has been among the hardest hit, losing about a quarter of its value since Sept. 18. Still, the stock is trading for about six times as much as it was five years ago, a meteoric rise that far outpaced most drug companies.

Valeant defended itself, saying in a statement that it "prices its treatments based on a range of factors, including clinical benefits and the value they bring to patients, physicians, payers and society." It says patients are largely shielded

from price increases by insurance and financial assistance programs the company offers, so that virtually no one is denied a drug they need.

But Mr. Pearson, a former McKinsey & Company consultant, has said he has a duty to shareholders to wring the maximum profit out of each drug. And in some cases old neglected drugs sell for far less than newer drugs for the same diseases.

If "products are sort of mispriced and there's an opportunity, we will act appropriately in terms of doing what I assume our shareholders would like us to do," he told analysts in a conference call in April.

Valeant is an extreme example of practices that have been around in the pharmaceutical industry for years. The United States, unlike most countries, does not control drug prices, and pharmaceutical manufacturers have relied heavily on steady and sometimes outsize price increases in this country to bolster their revenue and profits.

Valeant is known for buying companies and laying off their employees to achieve savings, while accumulating a debt of about $30 billion. It spends an amount equivalent to only 3 percent of its sales on research and development, which it views as risky and inefficient compared with buying existing drugs. Traditional big drug companies spend 15 to 20 percent of sales on research and development. Valeant also pays extremely low taxes because it is officially based in Canada, although Mr. Pearson operates from New Jersey.

Price increases provide an extra boost to the company's sales and profits.

For example, after Valeant acquired Salix Pharmaceuticals this year, it raised the price of one Salix drug, the diabetes pill Glumetza, about 800 percent.

"How can they just do this?" said Gail Mayer, a retired computer systems analyst on Long Island, who said her monthly supply of Glumetza went from $519.92 in May to $4,643 in August. For now, her insurance is covering most of that increase, but she is worried that it will stop covering the drug altogether, as others have.

"I'm sure it didn't cost them $4,000 more to make," Ms. Mayer said. "You don't just go buy a bottle of milk and suddenly the supermarket charges you $100."

Mr. Pearson has told analysts that it is standard industry practice to raise the price of a drug shortly before it faces generic competition, which Glumetza might face in February.

The drug industry argues that list prices are typically not what health plans pay after discounts and rebates are negotiated, and there is evidence that these discounts are increasing.

But even if patients are often shielded, the costs are paid by insurers, hospitals and taxpayers and lead to higher premiums and co-payments for everyone, critics say.

Jeffrey M. Rosner, the senior director for pharmacy sourcing and purchasing at the Cleveland Clinic, said that nine drugs with particularly egregious price increases had cost the hospital an additional $11.2 million annually, an increase of about 10 percent in drug costs for hospitalized patients. And Valeant's products represented 80 percent of that additional cost, he said.

The price of one Valeant drug, Mephyton, which helps blood clot better, has been increased eight times since July 2014, he said, and now costs about $58.76 a tablet, up from $9.37. The price of another, Edecrin, a diuretic, has gone up nine

times since May 2014 and is now at $4,600 a vial, up from about $470. When his staff called to inquire, Valeant refused to discuss pricing over the phone, Mr. Rosner said.

Many drugs undergoing gigantic price increases are old and no longer have patent protection, raising the question of why generic alternatives do not pop up.

The generic equivalent of Cuprimine, the drug taken by Mr. Mannes, is being sold by some foreign pharmacies for $1 a tablet, in contrast to the $260 Valeant is now charging.

For some Valeant drugs there are generic alternatives. For others, the sales have been too small to interest a generic company. That could change now that the prices are higher, but it would probably take several years for a generic-drug maker to win approval from the Food and Drug Administration to start selling such a product.

More conventional pharmaceutical and biotechnology companies, which conduct their own research and development, have rushed to distance themselves from companies like Turing and Valeant. The Biotechnology Industry Organization, a trade group, expelled Turing, saying it did not reflect the organization's values. Martin Shkreli, who runs Turing, is also facing a federal criminal inquiry into his activities at a previous company, Retrophin, according to Retrophin regulatory filings.

Cuprimine, a drug used to treat Bruce Mannes's Wilson disease.
Emily Rose Bennett for The New York Times

But while more conventional companies do not typically triple or quadruple prices overnight, they do often raise them year after year at a rate far faster than inflation. Big pharmaceutical companies like Pfizer and Merck raised list prices an average of 13 percent in 2014 and 8 percent so far this year, according to Deutsche Bank.

Ronny Gal, a pharmaceutical analyst at Sanford C. Bernstein & Company, said smaller price increases on widely used drugs had a much bigger effect on health care spending than the larger increases by Valeant on drugs with small sales.

Dr. Irl B. Hirsch, a diabetes specialist at the University of Washington School of Medicine in Seattle, said insulin prices had risen so much in recent years that some patients were scrimping on groceries to pay for it. The price of a package of five Lantus injectable pens from Sanofi has gone from about $179 in 2010 to $372 last year, he said, and insurance will often cover only one package at a time.

“All of this stuff that makes life so inconvenient, this would have been unheard-of five or 10 years ago,” he said.

The more conventional companies and their backers argue that research and development has a high risk of failure, so they deserve premium prices when a drug succeeds. They now are concerned that innovation will be undermined by a

reaction to price increases imposed by companies like Turing and Valeant.

Jacking up prices of old drugs, "with no R&D risk-taking, is just not right," Bruce Booth, a prominent life sciences venture capitalist, posted on Twitter Tuesday, adding that the practice "hurts the industry & innovators."

With Valeant's stock price falling, Mr. Pearson sent a letter to employees last week, arguing that increased prices accounted for only a small and declining part of the company's business. "Valeant is well positioned for strong organic growth, even assuming little to no price increases," he wrote.

But in the company's regulatory filing for the second quarter, Valeant said that its growth in the United States and other developed markets "was driven primarily by price," not by increased volume. Analysts at Morgan Stanley estimated that "outsized" price increases on eight drugs accounted for about 7 percent of Valeant's revenue and 13 percent of its earnings before taxes and interest in the second quarter.

For now, with Congress in the hands of Republicans and election season in full swing, quick government action on drug prices is considered unlikely.

The Manneses are applying for financial assistance from a foundation recommended by Valeant to help pay for Cuprimine. But Ms. Mannes was upset enough to write to elected officials and call local television stations.

"This madness has to stop," she said.

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