

Company Name: Valeant Pharmaceuticals
Company Ticker: VRX CN
Date: 2015-12-16
Event Description: Investor Day

Market Cap: 43,989.75
Current PX: 128.93
YTD Change(\$): -10.07
YTD Change(%): -7.245

Bloomberg Estimates - EPS
Current Quarter: 2.599
Current Year: 10.263
Bloomberg Estimates - Sales
Current Quarter: 2759.533
Current Year: 10472.500

Investor Day

Company Participants

- J. Michael Pearson
- Robert L. Rosiello
- Deborah A. Jorn
- Tracy Valorie
- Mark McKenna
- Yang Yang
- Joseph F. Gordon
- Fernando Zarate
- Unverified Participant
- Tage Ramakrishna
- Todd Plott
- Anne C. Whitaker
- Ari Kellen
- Linda LaGorga

Other Participants

- Christopher Thomas Schott
- Annabel Samimy
- Shibani Malhotra
- David Brecht
- David A. Amsellem
- Cindy Guan
- Corey George Davis
- Irina R. Koffler
- Alex Arfaei
- Tim Chiang
- Gregg Gilbert
- Sumant S. Kulkarni
- Austin Nelson
- Louise Chen
- Morgan Williams
- Umer Raffat
- Todd Corsair
- Brendon Integlia
- Prakash Gowd

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone. Thanks for joining us today. Today, we hope to provide you with better understanding of Valeant's strong brands around the world as well as our robust pipeline of products, all of which is driven by the hard

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work of all our dedicated employees.

Please note today that this conference call is being webcast and recorded, and then it will be available on our website. There are slides should we posted on our website as well. So with that, we'll go ahead and begin.

Before we begin, please turn your attention to the slide on the screen containing our cautionary statement regarding forward-looking statements. Certain statements made in this presentation and other statements made during this call and during the Q&A session at the end may constitute forward-looking statements. These statements are based on current expectations 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.

For further information in this regard and for specific examples of risks that could cause actual results to differ materially from these forward-looking statements, please see our recent filings with the SEC, which are on the Investor Relations section of our website. We undertake no obligation to update these forward-looking statements unless required to do so by law.

In addition, our conference call will include a discussion of certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are available on the Investor Relations section of Valeant's website.

And with that, I will turn the presentation over to Mike Pearson, Valeant's Chairman and CEO.

J. Michael Pearson

Good morning, and welcome to Newark. I don't know if anyone has been here before, but it's a nice facility and we're pleased to be here and have all of you join us. Today, we're going to talk about five things. We're going to talk about our collection of fantastic brands that we've accumulated over the last eight years, which is really the core of our business. We're going to talk about our relentless focus on providing easy and affordable access for physicians and patients. I'll talk about it a bit, our team will talk about it and we even have physician here to talk about it.

We're going to talk about our innovative strategies, sometimes disruptive, which have challenged industry convention and have put us in the spotlight. But there is a lot of value to be created in this industry. And it's not changed much in the last 40 years. And I think, we believe, it will change a great deal in the next decade. And so, we're excited about continuing to do things that will create value for our shareholders.

We're going to talk about our exceptionally productive approach to R&D. Contrary to the popular press, we're very proud of both the money we spent on R&D, but more important what's come out of it already and with the great pipeline we have, which will be coming out over the next few years.

And then may be the main reason for this meeting is to give all of you have a chance to see our decentralized approach personally. We believe it's fundamentally linked to our success; it gives us a real competitive edge. We make decisions closer to the markets and healthcare continues to be a very, very local industry. So, what's happening in the U.S. is very different than what's happening in Poland, what's happening in Russia, and what's happening in China. So today, you'll get a bit of a glimpse of what we're doing around the world and what a great team of people we have.

So, if you look at next year's sort of split of revenue, what you'll see is about 20% in dermatology, where we are the leader. This is mostly a U.S. business. So we are a leader in dermatology in the marketplace in topical. We probably have between 50% and 75% of the market. And we have a collection of great, great brands. We have patented brands and we also have brands like Aldara, which is to be a great acne brand, but it's now a generic. And with our new strategy with Walgreens, we're going to bring to life all our old brands as well as our new brands.

Ophthalmology, it's 22% in the developed world. It's in the emerging markets, so do the mapping, I think B&L is not as big as it used to be, but because a lot of – as you'll see a lot of it's in the emerging markets. The B&L is the second best name in ophthalmology or most recognized name after Visine. And then under B&L, we have great brands. And we are so delighted by that acquisition in terms of what it continues to do. And our teams are, as you will see today, are really

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beating the competition, big time. And we hope to continue doing that. GI, through our Salix acquisition, it's off to a great start. I will take you through some of numbers, but turning out to be a really, really strong acquisition.

The emerging markets, which maybe have fallen into disfavor a little bit in the last couple of years, but fundamentally we believe deeply in the emerging markets. If you look at the demographics, by definition, they're just going to grow. They're going to grow high-single-digit, double-digit for years to come. And we've established a very, very strong positions and with very, very strong local brands. Now, with some of other brands like B&L, we also have a set a global brands that we're bringing to the emerging market. So it's a combination of local and global.

And then finally, the last 22% is oncology, Dendreon, which today makes – I think our operating margins on Dendreon are in the 40% and we're going to be growing that business 20% next year. Dentistry, which has been a double-digit grower since we brought it. Women's Health through Addyi, and again you'll see the real storey behind Addyi. And then finally, neuro and other, which becomes less and less important part of our business. And with our announced price that will be even smaller, I expect it will be certainly under 10% of our business going forward.

So, dermatology; a number – you can see some of brands here. Again, why do we like dermatology? We like dermatology, because it's a small set of specialists, but what's most important of this is the doctors develop trust-based relationships with companies, with individual representatives, with senior management, and there's a certain loyalty in this industry and they love the brands. And so, our job is to continue to develop new products, innovative products like Jublia and Onexton, which really do work better than competitive products and continue to deliver those brands to the doctor. The underlying growth rate of dermatology is strong and it's a great business to be in and we're pleased to be the market leader.

Ophthalmology; the underlying growth rate of ophthalmology is probably 5% for the next 100 years. It's all based on demographics. Everyone in this room will need cataract surgery if you live long enough. Everyone in this room will develop macular degeneration, unless someone figures out how to reverse the aging process. This is going to be a great market. And everyone has two eyes, so that's good too. So we think this is a great market. I think you'll see in B&L, we've had some great product introductions. What we don't know is, how much we've refreshed the pipeline. We have more products in the B&L pipeline that we put in since we acquired B&L than what we had before. So that's a great future we believe.

GI, again, we just got into this. But the early – we've owned this company for about six months. There are lots of problems with the company. I think they're now largely fixed. We have basically cleared out all the inventory that was in the channel. And next year, we're going to see really, really strong growth. If you've seen the Xifaxan scripts, you can see what a great job the team has done in terms of the IBS-D indication. And again, probably the little secret about Xifaxan is the HE indication, is where the real opportunity is. IBS-D is exciting and important, but HE is a huge, huge opportunity and that represents – will continue to represent 80% of the sales.

And then emerging markets. Again, a combination of local brands and in the emerging markets most drugs are sold more like OTC products. We have a bunch of OTC products and we talk about branded generic OTC. The differentiation is not great in many of these markets. You do need a prescription technically, but if you go to a pharmacy and they'll usually sell to you the product even without prescription. So, it is a branded business. It's not – and people are always amazed, why don't they just substitute all these for generics? And the reason is, most consumers like brands in healthcare, they're safe – they believe they are safer and are better and that's what we've been building.

Let me just speak about the Walgreens program. First, I'd like to thank Walgreens' Stefano Pessina, I don't know if you guys know him, but he is a very brave and courageous man. We probably want the easiest company to partner with, given all the popular press and that's why we have such a long-term agreement, because we both fundamentally believe that this is going to change the industry and it's going to create enormous value for both our shareholders.

And what we have been able to do is, now distribute our drugs through Walgreens. They were a service provider. We'll pay them a distribution fee. We'll deliver our drugs to their DCs, just like we do to the wholesalers today. They will then distribute their drugs to their stores every day. And when the prescription is written and filled, we keep title the whole way through. The patient gets the prescription, they get a fulfillment fee. So, they get paid for the work that they

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do. The key innovation here is we can now control pricing. We can now control pricing, it's not an average wholesale prices, it's our price.

And you cannot control pricing as a pharmaceutical company in this industry through traditional channels. It's just impossible. So, what we're doing is lowering prices, not raising prices. We're lowering prices, we're saving a lot of cost going this way. So we're sharing some of that cost savings with the payers, but more important the opportunity for volume growth is huge, right? Today, Walgreens has 15% market share in terms of prescriptions, probably disproportionately higher than the types of prescriptions we have. They are not in the business of dispensing hospital products and the like.

And our market share of our oral brands is less than 1%. So as soon as this program gets put in place, all of a sudden, our market share will go to 15% overnight, and then we'll grow from there. And then on the branded side, it's a tremendous opportunity. It's going to be much better than Philidor. It's going to allow the doctor to write a prescription, send the patient to Walgreens and the doctor will know the patient will get that brand that day.

Again, we will take risk like we did in terms of making sure, till not every script is written, we'll get fully paid. But we can also offer a cash pay offering as well. So it's going to be a tremendous boost to our dermatology and ophthalmology business as these things are put in place. Walgreens and Valeant are going to be very, very careful, not to turn this on before it's operationally perfect. It's very important that we make commitments to our customers, patients and consumers that it works.

So, the first one will happen sometime in the first quarter, actually it's going to be January 15, so pretty early in the first quarter. The generics is probably not going to happen until the latter part of the year. They have to get the systems, they have to put the systems in place, distribution. But we're extremely excited about that program.

I think another theme is – I talked about was that we'll continue to be creative. So the slide – Valeant when I joined in 2008, it was a small company losing money with a very traditional approach to pharmaceuticals, big R&D, heavy marketing costs, heavy infrastructure costs. The first thing to do was turn that around. Then since that we've tried to actually think harder about how can we change this industry. We started our second – our first acquisition was Coria, where we got CeraVe, it was a \$3 million brand. We got Atralin, it was I think a \$7 million brand. But it allowed us to get a foothold in dermatology, which we really, really liked.

Our second acquisition was Dow which is where all our R&D pipeline is coming from today, we'll talk about that, and we built capabilities. The early part of our strategy was, you can see commercially, right, growing brands. The second part and it takes a lot for R&D to – things don't happen overnight. But last year, we started to see the fruits of our labor in terms of R&D. I think we got five products approved in the U.S., and four in dermatology. We're going to see more and more of that over the coming years and we'll talk about more about that.

But we don't spend as much money as others do on R&D. But I think that's okay, because I don't think it's how much – we're in a very funny industry where people judge how much you spend, rather than what new products you have coming out. And I think that will change, but that's the way. We're the first company to do a tax inversion in this. We bought Biovail for strategic reasons, but we also got the tax inversions and our tax team works harder than any other team, I think in the industry and we have the lowest tax rate in the industry.

We then decided to move beyond derma. We went into ophthalmology, so again another great market. We've turned it, we moved into GI, another great market. All this time, we continued to build our emerging market business. And then we tried to come out with a new access program with Philidor. The doctors loved it. The patients loved it. That's why we did it. It was good for doctors, it was good for patients; affordable healthcare. We moved on from Philidor. We ended our relationship and now we have Walgreens.

And Walgreens is about as reputable companies you can get and this is going to be in place for 20 years. But the real objective is not to make money, it's to help patients, it's to help consumers and take healthcare cost out of the system and give it back to the people that are paying. And if you do this in an intelligent way, we can make more money. And we can make more money by lowering our prices and making cost out and get more volume. So that is a better shift in strategy, but I think it's one that's consistent with the way the world is going right now.

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So next year, we'll be about \$13 billion company. We'll have double-digit organic growth, not just next year, the year after, the year after with these new programs. We have these great brands and attractive geographies and we have a terrific pipeline.

Everyone talks about our 3%, but we actually spend 8% on our pharmaceutical products. If you separate out consumer, we don't spend as much money in R&D devices. If you just look at our pharmaceutical products, and how much we spent supporting that, it's 8%. So it's not 16%, but we tend to – we don't have a budget for R&D. We sit in a room on a quarterly basis, we look at our programs and we invest on the ones that makes sense. It happens to be 8% today. Next year, the year after, who knows what it will be. It might go up, it might go down.

But we view R&D as a capital allocation decision, not as a budgeted item that you have to spend a certain amount and we'll continue. What we pride ourselves on is excellent capital allocation, whether we're doing an M&A transaction, whether we're investing in the DTC campaign, or whether we're investing in R&D. Tague is going to talk to you. We have over 200 active U.S. programs alone, and it's increasing. On the metrics the industry says you should be measured, we have the highest five-year output on R&D spend in the industry.

And our decentralized model, again that's our key, we move quickly, we make better decisions, not everything has to come up to corporate, but we balance it with very strong controls, in the areas of finance, compliance, audit, pharmacovigilance those are our central functions and then we have super tight controls on those.

So people understand where they're allowed to make decisions and where they're not allowed to make decisions. And we believe centralization does not mean, you're controlling better, it just means that's how you're organized. What matters are your controls, but what we want to do is unleash the energy of our people to make the right decisions in the market. As a matter of fact, we can now attract better people. I think after today, my guess is you'll be impressed. I'm impressed every time I see these guys talk and more impressed when they're actually doing work and delivering results, but I think you'll be impressed by the quality of people that we have.

Finally, I'd like to end on this page, which is, so how can you measure our progress this year. Well, we have been through a lot. So one way is measuring us on our ability to retain our people. One of the first things that we did when we got attacked by the shots, with the help of the board, is we put in a great retention program. It's going to cost us a lot this year, but it's worth it. We've lost no one. We've lost two reps in derm, that's it. And people in our company are paid based on stock too. So we have – I'm very proud of the fact that people stuck by – company is working hard. We've ignored the external factors and we're continuing to grow, grow, grow, generate cash flow and – but we should be measured on that.

Dermatology, returning to growth. Dermatology has slowdown this quarter, probably not shocking, but this is a very important part of our business and you should see how soon we'll start growing again. I think we will surprise you. Xifaxan, will be certainly our first \$1 billion product; I think we are at \$950 million run rate now. So, I guess it will be over \$1 billion. So let's watch Xifaxan next year. That's going to be a pretty good indicator of our ability to sell products and build brands.

Three new drugs; broda, latanop, our glaucoma drug, and RELISTOR oral, these are all significant – potentially significant drugs. Broda has the best efficacy data of any psoriasis biologics. So we hope and expect all three to get approved this year and then we'll launch them. So you'd have very large peak sales potential. So measure us on that and let's see how we do.

Addyi, we've been – a lot of people have said, Addyi is a disaster; today you'll see it's not disaster. So we believe we'll sell between \$100 million and \$150 million in sales of Addyi next year. So measure us on that.

And then our leverage, we've made a commitment, we're going to use our cash flow next year to pay down debt, and if we do, and we perform, we'll be at four times and I hope below four time by the end of the year. So I think these are six initiatives or six metrics that you should measure us on and that's where we're going to measure ourselves on this year.

So with that, I'm going to stop talking and turn it over to the rest of our team. First, you'll hear from Rob Rosiello, our CFO; Deb Jorn, who leads our Dermatology and our GI business; Tracy Valorie, who is seven days on the job in terms

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of our Women's Health business, but has been running our ophthalmology business since she joined from B+L. Mark McKenna, who has done an absolutely terrific job turning around our U.S. contact lens business; Yang Yang, who has made the long trip from China, who runs our Chinese and our Japanese contact lens business, where we're number one in the market, a true powerhouse; we're the biggest company, growing the fastest in China, so a terrific job there.

Joe Gordon, who has revitalized our consumer business when we bought B+L. They had two different consumer businesses, one was organized in pharma, one was organized in vision care and then we had our skincare. So we put them together. Now we're actually a very large company and Joe has done a tremendous job relative to the competition.

Fernando Zarate, where is Fernando? Fernando, our new GM. He's been with Valeant for – I think we've joined basically the same time, but he has recently been promoted, about a year ago; runs Mexico and Andean, Central America. The performance of that business is terrific. He's here to sort of represent sort of our emerging market branded generic OTC businesses and a good new face there. And Tage, where is Tage? Tage, you're supposed to be up here. You're – I guess, we got to Tage then. Tage runs our R&D and I think you're going to be surprised by what you hear in that section.

So, with that, I'll turn it over to Rob.

Robert L. Rosiello

As you have already seen we are adjusting our Q4 guidance to reflect a significant disruption in our business. Our revised revenue guidance will be \$2.7 billion to \$2.8 billion; adjusted EPS, which is the same measure we previously labeled as cash EPS, is non-GAAP, between \$2.55 and \$2.65 and adjusted cash flow from operations of \$600 million. These revised numbers represent a \$600 million change in the top line and \$1.50 in EPS. They are driven by three primary factors.

The first is the Philidor separation, which we expect will represent \$250 million. The second is our estimation of the one-time revenue impact from the Walgreens transition. I'll go into more detail on those two in a moment. The third, our pricing and volume related changes in some of our drugs. Essentially, in the fourth quarter, we cancelled virtually all of our planned price increases. We also witnessed significant reduction in volume for our hospital products like Nitropress and Isuprel, in part driven by contract negotiation we undertook directly with the hospitals.

So let me start – you add that up, that is our estimate of the difference between the previous and current guidance. The biggest piece obviously is Philidor. As you know, on October 30, we made the announcement to separate from Philidor. Our goal was to preserve access for patients, particularly on the refills. We were willing to invest to do that and to ensure that patients continued to get their product. We provided free scripts from October 31 to November 8; dispensed refills without seeking reimbursement from payors, because we eliminated adjudication at Philidor from November 9 through the present. And the average cash paid price declined from \$47 (sic) [\$67] to \$23.

The script loss was more significant initially and, if you've tracked the script volume, has begun to come back. Overall, it was a loss of 20% of scripts in the fourth quarter, virtually all Philidor covered scripts. So the revenue impact of that script loss is more than two times, in terms of impact.

The second change for Q4 are the one-time revenue impacts from the Walgreens transition. This is two pieces. The first – as Mike described, this is a consignment model at Walgreens. Under the arrangement, we will hold title of the products sold under the program until they are dispensed to a patient.

Valeant will credit in the fourth quarter any inventory on hand, because in Walgreens, more than 8,000 stores, they have inventory, as well as at the distribution centers. The second is our estimate of the reduction in traditional channel inventories for products included in Walgreens. My colleague, Deb, will describe this program in more detail as the next speaker.

So we all look forward to 2016. Our guidance for 2016 is \$12.5 billion to \$12.7 billion in revenue, adjusted EPS of \$13.25 to \$13.75 and adjusted EBITDA of \$6.9 billion to \$7.1 billion.

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Early, in 2015, we provided an outlook that outlook was \$7.5 billion of adjusted EBITDA. That difference is \$500 million and is driven by four factors. The first is the obvious rebuild of our Dermatology business and our Patient Access ramp-up, which we estimate is a diminishment. We expect to be \$225 million. The second are changes in planned pricing assumptions, which I will go through in detail in a couple of pages. The third, as Mike mentioned, our employee retention bonuses of \$75 million, and the fourth, our current expectation and estimate of incremental legal fees. So again our midpoint adjusted 2016 EBITDA is \$7 billion.

Now, how does – how will 2016, as we expect it to unfold, compare to 2015. On the right-hand side of this chart, we expect a 21% increase in revenue, continued double-digit organic growth, adjusted EPS increase of 31% and adjusted EBITDA increase of roughly 30%.

How did we get there? These are the assumptions underlying our expectations. The first, exchange rates are based on current spot rates. There is no use of the balance sheet or acquisitions. As Mike said, we are going hoard our cash and focus the vast, vast majority of our cash on debt pay down. This does not assume any pick up from that debt pay down, which would represent an upside. The planned impact from generics is roughly \$140 million based on the timing and these particular drugs; GLUMETZA, Zegerid, Nitropress, and Virazole.

As I mentioned, the pricing assumptions are as follows: the U.S. branded drugs, excluding the drugs that will go through the Walgreens programs, pricing will be consistent with PBM and managed care contracts. Other U.S. businesses; contact lens, consumer, are typically and we expect will continue to run at no more than CPI. Ex-U.S. business will be driven, as it has been, by volume with almost no impact on price, and as we've pointed out at times, has negative price. And then, as I mentioned, we are in negotiation directly with hospitals, offering discounts on our hospital products of up to 30%, which cover drugs like Nitropress, Isuprel, Virazole, and Ammonul.

COGS, we're guiding 20% to 21%, that is one point different than what we – than our target we had established before, that is primarily driven by the fact that we manufacture a huge – a large proportion of our drugs in the U.S. and export them to other countries. SG&A, we're guiding to 23% to 24%, consistent where we've been and our estimate for R&D spend is \$400 million to \$500 million.

Restructuring charges, we're guiding to be less than \$200 million, higher charges in Q1 and Q2 due to the completion of the restructuring we have underway at Salix, Sprout, Synergetics and Amoun, and trending down significantly in Q3, Q4, particularly because of – we will have much less BD.

Our cash tax rate, we expect to be 5%; interest expense of \$1.6 billion. You'll see the ramp in the business and it will be obviously sequential-to-sequential. But, as we pointed out on the last call, the first half of the business is reestablishing our position in Dermatology and growing the Dermatology business back.

Cash flow items; CapEx, we're guiding \$350 million; depreciation, \$200 million; and stock-based comp, \$200 million, which includes the impact of the employee retention.

We have in the past not guided to the first quarter of any year. In view of the rebuild, we thought it prudent to do so. Our first quarter guidance for revenue will be \$2.8 billion to \$3.1 billion; adjusted EPS, \$2.35 to \$2.55 per share, again driven by our expectations and current assumptions about the ramp up of the Patient Access Program in Dermatology and the continued impact of the reduction in channel inventories.

In terms of our balance sheet, two important points. The majority of our free cash flow will be used for debt pay down. We are committed to a minimum debt pay down in 2016 of greater than \$2.25 billion, including the \$562 million of term loan amortization and the \$260 million of maturities.

The second is our expectations in our models, we remain in clear compliance with credit agreement financial maintenance covenants, of which there are two; the senior secured leverage covenant and the interest coverage covenant.

As Mike mentioned, our net leverage to pro forma adjusted EBITDA is expected to meet our goal of being at four times by the end of the year and we enjoy minimal amortization and maturities through 2018.

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Let me close with our planned changes to quarterly disclosure and I want to start with cash flow. Adjusted cash flow from operation and cash conversion will no longer be reported each quarter. Only GAAP cash flow will be reported going forward. We will continue to report the integration expense by acquisition on a quarterly basis to the extent anyone wants to calculate the adjusted cash flow, if desired.

Adjusted EBITDA will be reported on a quarterly basis. Cash EPS, as I mentioned earlier, we will describe as adjusted EPS, non-GAAP, so that there is absolute clarity. There is an appendix in the back to describe each of those non-GAAP measures and a formula on how we think about it.

And then the top 30 global brands which we did report in Q3, we will continue. And I point out that, historically we reported the top 20 brands which typically accounted for less than a third of our sales. In Q3, the top 30 corresponded to 54% of our sales. And we will do volume and price/mix for the total company and U.S. branded Rx businesses.

With that, let me turn it to Deb to talk about Dermatology.

Deborah A. Jorn

Thank you, Rob. Well, good morning everyone. And it is really a pleasure to be here. My name is Deb Jorn, and I head up Valeant's Dermatology and GI business. I've been in the industry for over 30 years. And the thing that gets me out of bed every day and my absolute passion is to build strong brands through innovative, integrated sales and marketing campaigns. And on that note, what I'd like to share with you is a brand new commercial in support of our Jublia brand. Right now, Jublia is annualizing at well over \$400 million, so let's run the video.

[Video Presentation] (36:33-37:03)

[audio gap] (37:03-37:08) and wanted to know if Mario Lopez had X-ray vision, because the guy has on his shoe and you can't see through the shoe. So this is the type of interaction we do get.

The other thing we did this year, which was really fabulous is we launched a new Acne product called the ONEXTON, and most people would've said they're probably going to cannibalize your Acanya business which is also a similar product, but instead year-over-year, since third quarter those brands together have grown by 60%.

So I wanted to share with you also brand new commercial that's going to target the younger female population with acne, which is the largest, as you can imagine. And this commercial is also brand new and we're very excited about it. So could we just run the next video please. Thank you.

[Video Presentation] (38:00-39:02)

And this has really been, both a digital, a TV campaign and we've gotten really great feedback on this product and it is one of the favorites right now of dermatologists. Thank you.

But it's always easy when a business is going well, right. It's easy to manage, everything's going the way you want it to. But the true test of any team is when you have to manage through turmoil – through major turmoil, which is what we have had in the last several months on the dermatology team as a result of the separation from Philidor. But what I'm really proud of is our team proved that they had what it took to continue to stay focused through all of that going on and to really manage through that disruption. And I'm going to share with you the actions we took to do that. But first, I want to remind everybody, we continue to be the number one medical dermatology company in the U.S. excluding biologics, but keep that last point in mind because soon we'll have a biologics as well.

Our internal R&D efforts allowed my team and I to launch four new products in 2014. There weren't too many companies in the dermatology space that can claim to launch four new brands. We have a strong near-term pipeline that's going to continue to allow us to drive organic growth. We have deep trust-based relationship with our dermatologists and our podiatrists across the country.

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And in addition now, what could be more exciting? My team and I have the opportunity to launch a new Valeant Access Program, in partnership with Walgreens; the number one retail pharmacy in the country with over 8,000 stores nationwide. So, yes, we've had our challenges, but I do believe we're on the road to recovery.

So as Rob mentioned, on October 30, we separated our ties from Philidor. We also stopped Philidor from processing, adjudicating any more claims with payers. So what was our first thought? First and foremost, the thing we needed to do as a company was to make sure patients continue to receive their prescriptions. It was the right thing to do and our customers were waiting to see what we would do. So as Rob mentioned, for that first week, all prescriptions that were currently at Philidor, whether it was a new prescription that had just come in or a refill, were filled at absolutely no cost to any patients. Cost us a lot to do that, but once again it was the right thing to do.

We had to mobilize 350 sales representatives and the sales management team as well as marketing to deliver that message within days and hours to customers. You have to know your customers at that point. You have to be able to text them, call them and let them know what's happening because believe me, they wanted to know.

Second phase, we maintained no adjudication, but we offered \$35 prescriptions for those physicians and their patients who still chose to use Philidor, and when they did, they were sure they would get that product.

In addition, if the refill was already in there on a product like Jublia where they might have 11 refills, we stood by those patients. If they had paid a zero copay before, they received the product for zero. If they paid \$35, we would send it for \$35. Once again, the right thing to do. All of that was going on while another part of the team was rapidly working to decide what type of a new access program do we want? What do the customers need, and also how do we get the deal terms as quickly as possible. But then more importantly and I'll share with you, how do you operationalize that quickly?

The other thing we did was tremendous customer outreach, 20 cities in six weeks, in face – face-to-face meetings with our customers. I have to tell you, I started out in Orlando, I went to Houston, from Houston I went to LA, and then I got to skip LA – Las Vegas, I don't know why, but they didn't want me to go there. And then we did New York. I don't know what that says about me, but they didn't want me to go there. So we didn't – so we – then we went to New York. And really, what we said to our customers was, we are not leaving this space. We are committed to this space for dermatology and podiatry, and they really stayed with us.

In addition, as Rob mentioned, we put in retention program for our key people. My leadership team, my sales and marketing team, I have not lost one of those individuals. And that's pretty impressive because I've worked at other companies where we've had turmoil, and we haven't had that success. So in addition, we were able to keep all of our sales team except for two representatives, and needless to say, there is a lot of good things going on.

So what has happened? If you look at pre-Philidor loss and you look at post, this looks at the number of scripts. We averaged the four weeks of October before we lost Philidor and the four weeks of November excluding Thanksgiving, because this is a short week, we've retained 81% of our prescriptions, which I think is pretty darn impressive given what was going on.

Also, very important on this slide to note that we grew in retail, which is vastly – the majority of those scripts were covered by 17%. And now we have 350 reps who are ready and waiting, believe me, to roll out to their new customers on December 21 this new program. We'll go live on January 15, that's why we want to get out there now in December and tell our customers about this program. So we're very excited about that.

All that's great, but why should you believe that we can restore this business to grow? Well, let me go to my next slide and show you that through third quarter of 2015, before anything happens, our year-on-year growth in revenue was 76%. I don't know if there's too many companies that could say that. And the light blue part of the bar is the new products we've launched, and on the left side, no – my left, your right, you'll see that our new products reached \$150 million in the third quarter. So we know how to launch products, we know how to maintain growth of our in-line brand, and we are committed to do so.

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And last but not least, as Mike mentioned, we're going to have a new biologic at the end of the quarter – at the end of next year, and we believe it has the potential to be the most efficacious biologic to date in the moderate-to-severe plaque psoriasis arena. We'll follow that up through our internal research with some topicals and also – for plaque psoriasis as well as some new topicals for acne.

So with that, I'm going to switch gears, I'm going to leave dermatology. And I am going to begin, once again, by introducing you to our adorable, our loveable, but most importantly memorable Xifaxan's Gut Guy, who's suffering from IBS-D. So let's roll the video.

[Video Presentation] (46:59-48:01)

[audio gap] (48:01-48:06) talk about, right, diarrhea. You have to be really careful how you do it. And I think what this does is, and we were careful, it mixes the message but with a little bit of humor, but not insulting of the sufferer. Because certainly, this is a serious medical condition.

So if I could have my next slide. Great. As Mike mentioned, the fabulous thing about Xifaxan 550 milligrams, is it has two distinct indications, both in large markets and with a lot of opportunities still unlocked. So we have the hepatic encephalopathy indication as well as the new and recent IBS-D indication. So how are we doing? That's the most important thing, right? It's nice to have pretty commercials, but how are we actually doing.

What this slide looks at is our prescriptions by month, it includes retail and the hospital. We've received the new indication in May. We launched quickly in the beginning of June, just with the sales force, TV did not go on until October 4. So this is monthly thorough October, the reason it's only October is because we have to wait for the hospital data. But the real message on this slide is, we were running about 64,000 scripts a month in May. We're now at 81,000 scripts a month for this product and that's only with a few weeks of [CBN]. So we have 27% growth. So we know there's a lot more opportunity.

The other thing though that I want to share with you is that, as Mike says, right now the majority of the business is hepatic encephalopathy. And there are only two products in the U.S. indicated for the treatment of overt hepatic encephalopathy, Xifaxan and lactulose. And medical experts show that you actually should be adding Xifaxan onto lactulose, our own Phase 3 studies, patients were on lactulose, when we added on Xifaxan, we saw a 58% reduction in the recurrence of overt hepatic encephalopathy and a 50% reduction in hospitalization. This is a truly medically relevant product and when you look at the data, the claims data, we can actually get down to that level now, we know that only 45% of people who have that diagnosis are receiving Xifaxan in addition to lactulose.

So with that in mind, we are in the process right now of scaling up our sales force, we're adding a 100 representatives to call on 80 specialists and we're also expanding our GI footprint to get into more of those high density areas where we can get more scripts within the HE arena.

The other thing is, many of these patients go into the hospital. We have hospital representatives, but we also need to link that back to our office-based representatives so we're ensured that, that patient leaves the hospital continues care with Xifaxan after being discharged.

The other thing it's very easy to lose sight of when you have such a large product as Xifaxan in your portfolio, what's happening with the other brand? And I'm very proud of what the team's been able to accomplish. Besides integration and the launch of a new indication, we've been able to grow, this is RX data, October year-over-year the other brands quite significantly.

So, and the best is yet to come, we have RELISTOR Oral with a PDUFA date of April of next year, 3% of the entire U.S. population takes long-term opioid use, 41% of them because of those opioids will end up getting severe constipation. And this will allow us to come in with an oral product that has been shown within four hours to increase the percent of patients who have a rescue-free bowel movement, an RFBM, that – I thought that was interesting. But the most important thing is, when we look at that, it's very similar to our current subcu product that we'll hear more about that from Tage. So we're very excited to also have this brand plus the pipeline.

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So, in closing, let me leave you with two thoughts. I have two of the things that Mike had on his list of six things that you should measure our success in 2016 with. One was restoring Dermatology to growth. We will do that. My team and I will make that happen. And number two, to make Xifaxan a \$1 billion dollar brand for Valeant. And we'll check that one off too.

So thank you for your attention. And it's my pleasure to introduce my colleague, Tracy.

Tracy Valorie

Thanks, Deb. Good morning. Good morning out there. So my name is Tracy Valorie. And as Mike mentioned, I joined Valeant about 2.5 years ago through the acquisition of Bausch and Lomb. And I've had the pleasure of running the Pharmaceutical Ophthalmology division since that time. But I am not here to talk to you today about ophthalmology or anything in eye care. I am here to talk to you today about Addyi.

So I know a lot of you know of the recent leadership change that Mike mentioned this morning that was announced, so I'm about seven, seven-and-a-half and maybe eight at this point in terms of taking over the Addyi team. And my goal today is to really talk to you about in this time what I've learned and what we're going to do to put this product on the right track, so it can realize its true potential.

So what is Addyi? A breakthrough product. It really is. It is the first FDA approved therapy for HSDD, which really is a fairly large, but under-diagnosed disease area. And the reason it's under-diagnosed is because there really isn't that much understanding or awareness of HSDD, what it means for women, and what Addyi is and how that plays a role in solving for the issue of HSDD in premenopausal women.

We know there's been a lot of enthusiasm and excitement about the launch of addyi through the lay media. And we've seen that through the script trend to-date. Now, despite what you may have read, we have had actually nearly 7,000 prescriptions attempted to be written on addyi since the launch. The challenge is that only about 1,000 of them have gotten through into patients' hand. And the reason for that goes back to the first point I made about the under-appreciation of the disorder and the misunderstandings about what addyi really is.

We have a REMS certification program for both physicians and pharmacists. So if a patient walks into a pharmacy and that physician has not been REMS certified, they cannot receive that prescription. If the pharmacy has not yet been REMS certified, that prescription cannot yet be dispensed. So when we talk about what needs to happen for addyi, it's going back to the basics and doing the underpinning of the education with the physician community about what addyi is, what HSDD is, and, at the same time, educating the patient in terms of what their expectations should be when they finally receive this product.

I had the opportunity to speak to a couple of the thought leaders who've been involved with this product since it was the eye product many years ago. And their sentiment reflected some of the things that I've been seeing initially. They're really enthusiastic about actually having an FDA approved therapy to treat their patients. HSDD was actually acknowledged about 30 years ago in the medical literature according to these physicians as they informed me, but no one has really taken the time to understand it.

And then, this is the first time we've actually had an FDA approved product. So they've been really working with their own armamentarium of things that they think might help these women. This is actually something that can help premenopausal women with HSDD. The ones who've had early experience with it, really do appreciate what it can do or may do for their patients moving forward.

So they have both cautioned me on managing expectations around the time this product can take to work, about the REMS certification, and that's why we really want to rollback and dial back the moniker of the female Viagra, because that's setting unrealistic expectations in the minds of physicians and patients about what this product can do. So these are the areas that we really want to focus on in moving forward.

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So we've identified the biggest issues, awareness and understanding of a disease area and addyi, how it's prescribed, who it's prescribed for, what needs to happen in order to have a prescription actually land in a patient's hands and for a physician to be able to counsel that patient to the right objective. Complications around the REMS certification program, not easy, a lot of physicians don't even understand what a REMS certification program is. So that's a lot of work that has to be done to make sure that they understand, they have to be certified to the benefits and the risks of what this product is so that, again, they can counsel patients accordingly.

And finally, sales force. We have 143 sales reps on the ground currently. We need to take a hard look at where they're actually going and then the resources they have in their hands to make sure that they're being directed appropriately to the right physicians, giving the right message, and then, ultimately, being able to generate sales that actually make it through the pharmacy door.

So what's our go-forward plan? Where do we go from here? First, the REMS certification program; we're doing a lot of work right now to go back and reeducate physicians about REMS certification. What does that mean? We're working with the pharmacy partners who have opted in to become REMS certified pharmacies to make sure all of the kinks and hiccups that have occurred along the way get sorted out; some are operational, some are educational.

We're going to start the process of truly doing physicians outreach and training. What you'll find is, the physicians who've been involved in this product since its inception way back when at the eye – they're a small tightly-knit group who are very passionate about and believe in it.

But that sphere of physicians is very small right now. What we have to do is grow the education, make sure more physicians really understand what this is so that they can be better – and better empowered to treat their patients. We're going to build an integrated team at Valeant, which will be headquartered in the Bridgewater office. We have the opportunity now to leverage all of the internal resources that exist in the Bridgewater office so that we can do our best to improve efficiencies and make sure that addyi sees its true potential.

Part of that is obviously a medical science liaison team that my colleague, Sam Spigelman, has been actively working on. He works under [indiscernible]. We have a solid number of MSOs who are now up and running and who we'll be able to help with the education process in the field specifically.

We're going to improve our field force effectiveness. We're taking a hard look right now at [all that], the targeting, and we're going to making some very specific decisions in the first quarter about where to be directing our sales representatives. We're going to make sure we improve the reach and frequency to the right target, so it's not a one and done, it's not a one and done, this product is going to take time to make sure physicians are comfortable in writing it.

We'll do some retraining to make sure sales reps are adequately prepared to be able to have that conversation. And we'll work on tools and materials that will help them do that. And, of course, patient access; nothing matters if the patient actually can't have access to the drug once they get through all those initial hurdles. And so, addyi will be part of the Walgreens program that was announced yesterday; hopefully, launching mid-January timeframe. And more importantly or as important is working with our market access colleagues to ensure that all the plans pick up addyi and cover it on their plans.

And I'd like to acknowledge the group that's out there working hard right now, doing all the clinical presentations, all the plans, getting them up to speed on addyi, the disease today and doing the negotiations. Proud to say that, at this point, we have 50% of lives are covered, 35% of those are unrestricted coverage, and we are working towards the balance of those very quickly. So like I said, we have a lot of work to do to take what really is a breakthrough product and it should have great potential just to generate that potential that it deserves.

We're going to reeducate physicians. We're going to put our sales force on the right path. We're going to create an integrated team in Bridgewater to move the program forward. And then, I think, you will really start to see a turn in the numbers in 2016. And so the potential that we're calling, as Mike mentioned early this morning, that's somewhere between \$100 million and \$150 million for 2016.

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So, I'm really looking forward to get my arms all the way around this program and I thank Mike, for the opportunity to do so and looking forward to 2016. So, now I'd like to introduce you to my colleague Mark McKenna, GM of Vision Care.

Mark McKenna

Okay. So, we've been going about an hour and a half now, and now comes the audience participation part. As you've seen from the speakers up here, we have some phenomenal brands, not just great brands, but phenomenal brands. And I'm curious, we're going to play the honesty game, how many of you guys in the audience have had a chance to work with these products yourself? Have personal experiences?

Okay. So, let's start first with Jublia, anyone here with toenail fungus? All right, we've got some honest folks in here. Now, we're going to move on, it's going to get a little awkward, okay? So how was Xifaxan? Really getting honest. So, we won't talk about addyi, because I don't want to see the guys raising their hands, but my name is Mark McKenna; I'm the Vice President, General Manger of the Vision Care business in the U.S. and I have the distinct honor of leading a great team and a turnaround of a great business.

About two years ago, I had an opportunity to come to an event very similar to this. And during the break, an analyst came up to me and said, hey, I live in Manhattan. I know you guys have all these new contact lens products in the marketplace. I recently had an eye exam and I went in and my doctor told me that he didn't fit any Bausch + Lomb products that he didn't even know Bausch + Lomb still made contact lenses.

And as hard as that was to take, we took it back to the team and said, guys, for us to scale this business, we know we go to increase our scale. About three months ago, I got an email from the same analyst and said, hey, I just went in for my annual eye exam. And I went into the same doctor and asked him if anything had changed with Bausch + Lomb, and what did you know? There was a Bausch + Lomb ULTRA fit set, there was a Biotrue ONEday fit set, and not only did he have a fit set in his office, most importantly, he was using them. And that, over the course of the last few years, we've been able to convert, maybe not all the 44,000 doctors out there that prescribe these products, but I can tell you we're making a good chunk at it right now.

So I want to start out and play a quick video. This is the digital asset that's supporting the Biotrue ONEday brand, a brand that we're very proud of, and I'll tell you more about that story later in the deck.

[Video Presentation] (01:03:42-01:04:12)

Over the last two years, we really tried hard to support these brands, and be very acute with our marketing spend. And so that's one of our digital assets that's helped promote Biotrue ONEday brand. So, the acquisition by Valeant was a true inflection point for the Vision Care business. Prior to acquisition, the Vision Care business had been flat and fast forward, today, we're growing at double-digit. And we're doing so through our decentralized model and the strategic investments that we're making for these brands.

What I'm most excited about is that the success that I want to show here that we're seeing in the U.S. market, I truly believe our harbinger of what you're going to see as we start to roll out these other in line products across the globe. Not to be forgotten, my colleague, Joe Gordon is going to talk about our solution portfolio. And the fact is that we're significantly outpacing the market with those products; and the category is flat, we're growing double-digit.

We also have a very strong pipeline. Tage is going to come up here in a few moments and talk to you about the pipeline. But I'm proud to say that we have 20 new products that we're going to launch over the next three years just within this category.

So, let me start up by walking you through our story: the U.S. contact lens turnaround. So, prior to the acquisition by Valeant, Bausch + Lomb Vision Care business had declined for seven straight years; not only were we losing revenues, we were losing share. And because of some efforts that we put in place and the strategic investments that we've invested in, we've been able to turn around this franchise. And we focus on winning with the doctor. We want to be

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invited in by the customer.

The challenge in this category is that 75% of people walk in with one brand, walk out with the same brand. So we need to partner with the doctor and give them a really compelling reason to switch a happy patient. And I think that when you take a look at the results, it's hard to argue with 16% growth last year. We're going to finish around 26% this year. Those results are compelling in a category that's growing at 5%. How is it compared to the market and to our competitors? I think this slide speak volumes. We are growing nearly four times the category on the contact lens side and in the category that's flat our solutions portfolio is growing at 7%.

So what are the winning strategies that drove that kind of growth that I just showed you? These are the same imperatives that we talked about for roughly last three years. It's all about forging that high performance team. It starts with the people. Great products is only part of the equation as all of you know. In the areas that we did didn't – we weren't strong, Mike and team have invested. I went to them and I said, hey, we need to make sure we have doctors on our staff to go out and communicate our peer-to-peer message and to conduct these events that I'm going to show you here in a second, doctor engagement events.

We've expanded our sales force to improve frequency and reach to make sure that we're giving good customer service. And we strengthened our customer relationships. I'm really pleased to announce that we signed two major deals in the last 30 days. First, Vision Source, the nation's second largest optical retailer, has broken away from a 25-year relationship with another manufacture to put us in place. This is going to represent significant upside for our business.

Additionally, the nation's number four optical retailer, National Vision, we formed a strategic partnership with them as well. It's going to open up tons of access to new practitioners. One of the things that the decentralized model has enabled us to do is to be disruptive in how we go to market. And Mike talked about that earlier today. And what we are able to do with – we knew we had some great products, but just having a great product is not going to get it done.

So, what we did is we, basically, we had a fitter's first strategy, where we partnered with the doctor. We engaged them and made sure they understand the clinical benefits of these products, what makes it unique and new. And then we made sure there was an incentive for them to introduce this product to their patients, because we know that, as I mentioned a second ago, the vast majority of people are walking in, walking out with the same brand. So, we needed to make sure that they understood the reason why to switch them.

And finally, through the great work that Tage and his team have done, we've been able to accelerate the pipeline by almost 12 months. So, we're going to launching ULTRA Multifocal and Toric in 2016. And that to me is going to be the key to our success, because then we'll have the entire portfolio of products.

So how is Bausch + Lomb ULTRA doing in the marketplace? I think this graph says it all. We are quickly scaling this business. We achieved almost an eight share in less than 18 months in a frequent replacement category despite only having roughly about 50% weighted average distribution in the market. So there's a lot upside here in the U.S. market. And we've been supporting these brands through our direct-to-consumer campaigns, primarily on the digital side. And you were – in a couple of moments and I'll show you how we're going to take it to the next level in 2016.

But before I talk about 2016, I wanted to bring you to the launch of Bausch + Lomb ULTRA, how have we engaged the doctor. So I want to show you a quick clip from the B+Lieve event.

[Video presentation] (01:09:52-01:11:41)

Of the 300 doctors that we had attend, roughly about half of them were doing less than \$1,000 in business a quarter with us. There's no doubt that when they left that event they were pretty engaged. You could see it in the video there. The question is what do they do when they go home? Do they keep to their old habits or do they actively start to switch patients? This is a survey that was done last month by Cleveland Research. And it asked ECPs which recently launched lens has gained the most traction in your practice? And it's clear, Bausch + Lomb ULTRA is the winner in the market and doctors are recommending it as their primary lens of choice.

So what does the future look like? We talked about some great early success. How are we going to scale this business? And it comes down to three things in my mind: launching the specialty indications, which I mentioned we're going to

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do, the Multifocal and Toric early next year. We're going to be investing in a multi-million dollar television and digital campaign that's going to help support these brands, help drive consumers in to ask for them. And third, we're going to continue to invest on marketing efforts that work; peer-to-peer engagement. We're going to be launching Bausch + Lomb ULTRA Multifocal and Toric through similar doctor engagement events.

I wanted to take a second to talk to you about Biotrue ONEday. This is one of the brands that I'm most excited about. When Valeant acquired us, this is the brand that kind of had flat-lined. It was launched in 2012. When Mike flew over to Ireland, there was only about 200 days on hand. There were so much products, they were hiding it under the desks. They didn't know what to do with it.

And today, we are selling as much as we can produce. And the trajectory that you're seeing here is because of the fact that we took a look at the market. We went out and talked to the doctor and said, hey, how do we reposition this lens so that we can be a market leader and be the fastest growing? And what we did is we refined our targeting. We put an incentive in to switch patients from competitor brands. And we retrained our sales force to make sure they understood the clinical benefits of the product. And as you can see from the chart, those tactics and strategies are working. And today, Biotrue ONEday is one of fastest growing lenses in the U.S. market.

So, let's talk about the future. Tige is going to go more in depth, but I think it'd be hard to argue that we don't have the most robust pipeline in the industry. And Mike talks about the R&D review that we do. It truly is coming in and saying what do you need? Mike challenges us to say, hey, do you have enough? And then we put together the business case to support the investment and I think that's the way it should be. But next year, we're going to be launching three new contact lens products on top of new lens care products. So the future is bright.

I'll end with this. How many of you guys use an iPhone or a smartphone? The majority of the competitors that I compete against have materials that predate the iPhone. So, the future is extremely bright. We have, not only the innovation, but we have the strategies and tactics to make it happen.

So, thank you, guys, all very much for your time. And I will turn it over to my colleague, Yang Yang, who runs the China business.

Yang Yang

Good morning, everyone. My name is Yang Yang, I'm from China. I'm the Business Unit Director for Vision Care for China and Japan. It's such a great pleasure to be here to talk to you about our Vision Care business in China. And to start off, I want to show you a video that was put together. It really gives you a flavor of how business and people are like in China.

Let's take a look at video first.

[Video Presentation] (01:15:31-01:19:32)

In the video, we have really exciting business going in China. Before I share more details with you, I want to give you a quick overview of our Vision Care business in Asia. Our Vision Care sales in Asia is close to \$0.5 billion, grown at 6%. Our biggest business is in Japan. Although the market itself has declined in Japan, our Bausch + Lomb business is growing. We're also seeing very strong growth in important markets such as Korea and India.

China is the second largest Vision Care business in Asia. However, it's actually the one with the fastest of growth in the region. But our business in China is more than with vision care. If you take a look at the chart here, we got a large size of surgical business that has been growing at double-digit in the past few years and is projected to continue to grow in the years to come. We got a decent size of Rx products and we're also one of the largest OTC eye drop companies in China.

Vision Care business is about 45% of the business. We're the first company to introduce contact lens into China. At one point, Bausch + Lomb brand was so strong it was used as an acronym for contact lens. And even today, in some parts of China, consumer will walk in the store and ask for a pair of a Bausch + Lomb instead of a pair of contact lens. We're

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the most recognized and preferred vision care brand in China. We're also the largest vision care brand in value and we're the fastest to grow.

Let's zoom into the vision care market in China. There is three big segments in vision care in China. We got clear lens and lens care just like what you have in the U.S. But we also have a big chunk of business in cosmetic lens. So there are really two types of products in cosmetic lens. One is called color lens, the ones that change the color of your eyes, and the other is called circle lens. They enhance the size of your iris and make your eyes look bigger.

In fact, today I'm wearing one of our own products called Naturelle. It's a circle lens product and makes your eyes look bigger and brighter in a very natural way. This gives me more confidence, how I look when I'm presenting to you guys. Lens care business in China is still dominated by long modality. The half yearly and yearly are more than half of the market and it continues to grow. Daily lens is the second largest segment. Experienced a little bit decline in the recent years because the local competitors entered the market with lower price points.

Speaking of competitors, in China, we got the same set of competitors that you see in other countries, with the exception of one big local competitor. As you can see in the chart, Bausch + Lomb is the largest vision care brand in China with the fastest growth. In the past few years, we have been outgrowing the market and taking share from our competitors. So, the growth is really driven by the success of all three segments at Bausch + Lomb China, as you can see from the chart.

Now, I'd like to take a closer look of the growth drivers of each of that. Clearly, Bausch + Lomb is the dominant brand in clear lens in China for many years. We've got the most comprehensive product portfolio in the marketplace. We have a full modality of offerings. We have daily, monthly, six months and yearly. We also got hydrogel, silicone hydrogel, and the HyperGel lenses that we just introduced in China this year. We're the number one in toric lenses. And we're going to be number one to introduce multifocal contact lenses in China in the year of 2016.

While we were successful to bring new and innovative products to China markets, we continue to grow our user base and penetrate into lower tier cities in China with our baseline product. To give you an example, our SofLens 38, which is the half yearly lens, it has been in China for many, many years. However, it's the biggest best-selling SKU in the entire marketplace. However, we're still seeing over 15% growth in the year of 2015.

Last but not least, we work very closely with our customers to provide professional training to our ECPs and consumer education, specifically, in the area of toric and multifocal. Although the market for toric and multifocal is very small in China today, but our efforts in this area really reinforce our professional image in the minds and hearts of our ECPs and our consumer. It also lays a very solid foundation for future growth.

The lens care market in China has slowed down a little bit in growth. However, Bausch + Lomb didn't. We grow really strongly, especially with the introduction of our Biotrue solution. The drivers behind the growth is really twofold. The first one is our ability to segment our market with multiple offerings.

We got our Biotrue and renu fresh solutions imported directly from the plants here in the U.S. It give us the opportunity to really build our professional inmates with the imported premium and best quality products in the marketplace. At the same time, we got our lens care products produced locally in Beijing, China.

It enables us to reach to the consumers in the lower tier cities at a more affordable price points. We got the different sizes. We got the large size for loyal users. We've got the travel size for the people who are on to go. We also have renu color. This is especially designed to target the cosmetic lens users. This is really to capitalize on the rapid growth of the cosmetic lens market in China.

The other unique advantage that Boston lens care has is our strong brand equity in both lens and lens care. We're the only brand who had that type of brand power in both segments. It allows us to bundle and to cross-sell between the two segments. Not only we're able to increase our share of wallet of our consumers, it also really help us reinforce our brand loyalty.

The cosmetic lens portfolio is a really nice addition to the Boston lens portfolio in the year of 2011. That's been a very strong contributor for our sales growth since its launch. We continue to build our equity like our clear lens, we're

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professional, has the highest of quality. However, we market our cosmetic lens differently. We positioned it as icons for fashion and style by tying the consumers daily using as a beauty necessity, just like your make-up parlor.

In the year of 2014, we became the number one cosmetic lens brands in China, took over Johnson & Johnson's number one position for the first time in many years. In the same year, we purchased a company in Korea that's specialized in design of cosmetic lens. It further enhanced our capability and our flexibility in bringing more colors and patterns with Chinese consumers, really inspire them to make their already beautiful eyes more beautiful with our lenses. Our goal is to continue to build our credibility in fashion expertise and really become the trend-setter for the industry.

So, with a strong growth of Valeant, I often get asked the question, what do you think is making you guys grow so fast outpacing your competitors, is that the product or is that the people? My answer is really, it's our distinct decentralized commercial model. The decentralization empowers the local team to make decisions that are best for the market. And that in turn attracts people who are driven, who has the strong desire to take ownership and responsibility. And that's how we built a best-in-class team and the talent pipeline for the future. Our sales team is very stable. They view the company as their own. They think they're owner of the company. They stay with the company and they grow with the company. And our customers really respect that.

The decentralized model also allow our marketing team to stay very close to our consumers. So our marketing team is able to come up with product portfolios that is based on deep consumer understanding, and as well as local marketing campaigns, and see that the local consumer is really educated. Because everybody thinks we're the owner of the company, we spend our money wisely.

We try very hard to make our investment work very hard for us. And that's why we adopted the content-based digital media model, really focused on earned media by the key opinion leaders or our consumers. Let them speak for us. And that has been proven not only to be very effective, but extremely cost efficient. As we often say, to work for company at Valeant, you've got to enjoy the heritage and resource of the big company, but you also get entrepreneurship and agility of a small company. You really get the best of the both worlds.

Looking into the future, we got a lot to look forward to. What we list here is the pipeline for China, but it's actually the pipeline for Asia as well, some marketers in Asia are able to bring the product to the marketplace, still as in China depends on the regular timelines.

As you can clearly see here, this pipeline is a nice blend of a global pipeline as well as locally developed product tailor-made for the consumers in the local market. So with such a strong portfolio in place and we've got really dedicated and passionate people behind the portfolio. I'm very confident that the strong growth of Valeant is going to continue for many, many years to come.

As my regional salesman just said in the video, as the brand Bausch + Lomb is dedicated to help our consumers to see better and to live better. As a company, Valeant can do even better. Thank you.

With that, I'm going to turn to Joe to talk to you about the Consumer Health Care business.

Joseph F. Gordon

Thank you, Yang Yang. Great job. My name is Joe Gordon, and I am the General Manager of the U.S. Consumer Business. And I can assure that I'm wearing nothing at all that's going to make me look beautiful.

I joined the Valeant organization through the Bausch + Lomb acquisition about 2.5 years ago. So, Mike said in his opening remarks, 2.5 years ago, there were three separate and distinct consumer units. We had our lens care business in Rochester, New York. We had our OTC business in Madison, New Jersey, and we had our Valeant skin care business. So what we did is, we took that together and we made it into one very large consumer healthcare company, very powerful consumer healthcare company and a much more profitable consumer healthcare company.

So who are we? What are our drivers of growth? So we've got a great and diverse portfolio of brands, and I'm going to quickly take you through that in just a little bit, exceptional retailer relationships. It all starts with a retailer. Consumer

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assembled a great set of consumer marketers with proven track record that drives businesses and brands.

And the last two is what I really feel that separates us from other consumer healthcare company is that the physicians is at the center of everything that we do. Our products are detailed and sampled at dermatologists, optometrists, ophthalmologists office and anytime we have a new initiative or we launch a new product anything, the physician is right there with us. So how is it paying off? We're doing pretty good.

Over the last three years, Valeant consumer healthcare has been one of the fastest growing consumer healthcare companies in the United States of America. That's for three years. That's just not one year, okay? We've been to the left of this chart. We've been to the left of this chart for three straight years, and we're going to build the plan and we've built plans that we're going to stand on the left side of this chart for the next three years.

You can see some of our competition up there of different companies. We compete with J&J with some of the businesses that are more in the middle of the pack. We pulled out Alcon. I just want to quickly mention here that this is actually retail sales. These are not factory sales. These are sales that actually go through the registers. This is where the consumers vote, okay? This is what we look at every single day, it's our consumption through the registers.

So, our consumer units broke into three different business units, right. Skin care, headlined by our CeraVe business, Eye Care by Biotrue; and on our Eye Vitamins business, PreserVision. I'm going to take it through each one of those in just a little bit. So, we talked early, we made it to a larger consumer healthcare company. We're doing over \$1 billion of retail now, okay? \$1 billion of retail. That means retailers want a piece of us. When we were three separate companies, we were just considered tail brands or smaller companies and – hey, maybe we want to grow it. We've got a lot more clout with these retailers. We've got a topnotch sales organization that knows how to build win-win joint business planning with these retailers, and the retailers are a great place to promote your brands, drive your brands. And that's, I believe, another reason that we're on the left side of that chart, one of the fastest growing companies.

Our marketing team, proven set of marketers back in Bridgewater, New Jersey and figure out how to drive a business. They've got a proven track record on how to drive sales. But there's a lot of examples up here, print, digital, social, TV, professional, whatever it is. We don't do all of that on every single brand. That's the problem with some other companies, some other different consumer products companies. They do a little bit of everything. They go across, they check. We're doing that. I'm doing PR. I'm doing this. I'm doing that. We don't do that. That's not our philosophy.

Through market research, we figure out one, two, maybe three things that drive a brand, and we fund it. And we fund the heck out of it. We find out what drives it and we do it relentlessly and we do it with excellence.

A great example of that is PreserVision. PreserVision is a dietary supplement. It's for folks who have been diagnosed with age-related macular degeneration, or AMD. So the two – well, a couple things to take away from this slide. The bar chart is our factory since 2012 and the bubbles on the bottom is actually our retail consumption. Remember, that's what actually goes to the register. That's how the consumers vote. That's how you find out who is winning.

So a couple of key takeaways from this. If you look at 2012 to 2016. We're going to double the business. We're going to double the size of the business, double the factory business, and we're looking at some great POS consumption numbers that are actually growing year-to-year-to-year. Some of the reasons why we were first to market is we acted quickly. We read the market and what is it that we wanted to do. We were first to market with AREDS 2 product, right? That was a tremendous addition to the business.

We started with consumer print. We saw an opportunity to grow this business to go out and drive awareness of this product for folks who have been diagnosed with this disease that this can potentially help. We started with the print campaign. We just recently launched a test TV campaign in the fourth quarter, proved out to be wildly successful, successful in the numbers that we thought we were going to do. So we're going to continue that into 2016 and keep this rocket ship going.

So with that, I'd like you to – if you could play the commercial.

[Video Presentation] (1:36:30-1:37:01)

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Back in 2012, we had less than 1 million users for households using PreserVision. Today, we just got numbers – actually yesterday after our TV campaign and all of our initiatives moving forward, we're up to 1.4 million. By this time next year, we're going to have 2 million users – we're going to be pushing 2 million users of PreserVision. So, opportunity for growth is great. When I say that – I say that there's 2 million users, actually we've identified the marketplace, there's another 7 million potential users in the marketplace that we're not getting just yet. So the opportunity for growth is certainly great.

The other example is Biotrue, okay, another time for vote here. Who here has contact lenses? Okay, I'll just split that. Who here uses Biotrue? Who doesn't use Biotrue? Why are you living in pain? Biotrue can offer you all-day comfort. We'll offer you all-day comfort. I'm going to setup a stand upfront for the low, low price of \$10.99. Biotrue offers you all-day relief with 20 hours of comfort, okay, so that's the basis. I asked that question because that's the basis of this slide, obviously we're doing a pretty nice job with Biotrue, as you could see the chart starting to build here. And the category, very low interest category flat up 1%, maybe up 2% at times, and maybe down 1% depending on the year. Biotrue has been on the CAGR of 23%, okay, three-year CAGR 23%, okay.

Back in 2010/2011, when this business was launched, came to the market, it was a good product. Doctors kind of liked it. It was doing pretty well, but it wasn't really knocking the socks off consumers. We started something called the Biotrue Challenge and that's what I ask each one of you to do is take the Biotrue Challenge.

You can either go by it in the store or go online to biotruechallenge.com, get your free sample of Biotrue, try it, I guarantee it. It will work for you. And that's what we did in 2014. And as you could see, the business started to take off for us because we knew we're so confident in the quality of our product that it actually works. That was the basis of our campaign.

So what happened 2013 until now? We've picked up 1 million new users of Biotrue. Those people who were using something else, they switched, they weren't potentially new to the category. They were using something else. They tried Biotrue, they switched to it. Doctors even believe in this.

Actually a third of all optometrists use Biotrue as their primary recommendation. And you've all heard of Walmart, right? Biotrue is now the number one solution, MPS, that we actually know it's an overall, Biotrue is the number one solution at Walmart.

So you don't have to take my word for it. Can you roll the video please?

[Video Presentation] (1:40:00-1:41:10)

So, when I showed that to Deb Jorn, she was like, how come I didn't go on Scott Foley shoot. What is that? I said that's the difference between pharmaceutical marketing and consumer marketing. I get to go with actors and Deb chases around imaginary colons that are running to the bath and that have diarrhea.

So that's why I choose to stay on the consumer side of the business. So I mentioned earlier around the difference between, I think, a competitive edge for our consumer businesses, how much we focus on the dermatology – on the professional community. There is no – there may be no better in the industry, example, than CeraVe, okay. I'm not going to start asking about who are CeraVe users. There we go. Okay, okay. We're going to get the rest of you going on that, it's a great stocking stuffer for the holidays.

So again, I'm try to make my – finish up the quarter strong here. So I'm trying to sell some products, if you will. So there's no better example than CeraVe, and actually CeraVe has got – the formula is great, right. It's got a specific formula of ceramide. It's recommended by doctors, probably because it was developed with dermatologists. Dermatologists actually helped us develop this product and there is no surprise, and the bottom right there CeraVe is the number one dermatologist recommended moisturizing brand.

Number one, okay, this is the brand because basically they believe in the product, we've got Deb's sales force going out there and selling and detailing the product and dropping off 15 million samples a year. So many of you probably, who went to the dermatologists, walked out with the sample because that's how much they believe in the product.

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And how has that manifested itself in the marketplace? Pretty darn good. For the last four years, CeraVe has been the fastest-growing skincare brand in the market, okay. Good numbers here, as you can see jumping up to \$135 million. Another great story, look \$50 million to \$135 million, great. \$135 million is really, really good. Because used to be at \$50 million, this is a \$6 billion category. The room to run here is tremendous. And we're going to continue to run.

As you can see, CeraVe are on CAGR over the last three years or four years, has been at plus 24%, again another category that's been plus 1%, plus 2%, flat. That really hasn't been an exciting category. CeraVe is really walking and we're going to continue that. So, an interesting phenomenon that's actually occurring with CeraVe, dermatologists – probably the folks here uses CeraVe most likely were recommended by a dermatologist. But what's happening? What we are finding out is dermatologists recommending the patients, we're finding so much buzz online of patients recommending through friends, or talking about CeraVe because it actually is a solution for them.

So these are actually pulled straight from the Facebook page on CeraVe. These are unprompted. These are just folks talking about CeraVe online. CeraVe Moisturizing Lotion and Hydrating Cleanser are the best products out there, Kathy M. My dermatologist recommended CeraVe skincare to me yesterday, I'm really looking forward to trying out. Just bought the am/pm, my skin is so smooth and soft. Well, this is happening without us.

So obviously we note this as a key insight but we're starting to put more money into digital, and we're taking this, and we're going to amplify this out through the consumer. And this is going to be the basis of our consumer campaign. So, again started on both end, keeping it never ever, ever like the professional community. All you keep telling the CeraVe story, keep those recommendations going because we're so confident in the product that this product will be recommended to other people in the marketplace.

Final two slides. Final two slides really talk about the future. These are the new products that we've brought to the market just recently, I mean, this slide doesn't do a justice at all. When you typically put a slide like this, together you show what your pipeline is in the future. But the real story here is our recent launches, right.

Our hit rate, what we call the off hit rate, I guess we call the success rate, our new product is great, much above industry average. So, the number the other day that 45% of new products in the consumer industry fell by their second year on the market. We've got a tremendous hit rate. Our numbers are so much greater than that, on CeraVe, on our eye care business even on our eye vitamins. We're doing a nice job there and we've got a nice plan to move forward to continue to build the business.

So this has been the sales trajectory of the consumer business. And as you folks know, as you cover the consumer businesses, you find a lot of folks that – categories that are plus one, plus two, plus three, I work for a big pharmaceutical company one time where we're a high-five and around the office when we got the 3% and 4%, okay?

We've been doing a better job in that upfront. As I show, we've been growing at rate of two times, three times even a four times industry rate over the last three years. And we don't see why wouldn't be able to just continue that into the next two years. All right. So, that said, thank you for your time.

Fernando Zarate

Good morning, everyone. So let's move out a little bit from the U.S. and want to join to me to Latin America. I'm Fernando Zarate, the head of the region from Mexico to Chile and with Central America, Caribbean and the Andean region. So, I have 24 years of experience in the pharmaceutical business in different countries in many companies probably in the five years joining Valeant.

So, I want to start with how was performance of Valeant in the last year. We have been growing double-digit in the last five years and, especially in 2015, we are expecting to finish the year with a 15% growth. But as you can see, our diversified model, no, we are not only participating in branded generic, we've got different segments, different markets.

But our branded generics is the cash generation of – the generator of cash flow. So we put all that investment to the rest of the businesses. How we concentrate our growth in our region? Well, basically we've four pillars, four trends that we

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have a different than the competition. Number one, to be the first in the market or expiration of patent. Here we have a very good team. We've local R&D department that continuously are searching all the opportunities we have in each country. Probably for many of you – while Central America is very similar – no, there are completely different countries and different cultures. So our R&D department needs searching all the opportunities at this moment.

Number two, we have very strong brand, very well-positioned brand not only for our products but also for our companies. So that's the best example of our decentralized model. We respect our independency in each company, each company has their own field force, their own strategy. So that gave us strength that many companies don't have.

Number three, our local manufacturing. We have two facilities in Mexico, and recently six months ago we've had two more in Colombia. That gave us a strong platform to grow in the region. I consider that the most important value of this is that, these are centralized models and we can manufacture in each country, give that the speed to capture all the opportunities we have in every market. So that is, I think, the most important value we can give to each country in our region. We produce more than 30 million units for each market, so we are continually growing in which opportunity we can perform.

Number four, our commercial structure. This is probably 600 – more than 600 people every day is working outside, searching all the opportunity we have in the country. We have a tremendous coverage in every country. In some of them, we are the only company that we can reach all the geographical coverage. So, it's a difference that nobody can, especially in markets like in Latin America.

So, all these strengths combined give us an uniqueness of opportunity and a very solid growth to continue growing in the next year. This is our platform for the next three years. We already launched in 2015 three brands and we have already approved another eight for the next two years. Of course, these are not the only ones, we are in the process to introduce more than 25 molecules, but this is what we cover now. We concentrate to have a very specific and very strong investment in every brand we're launching there in the market.

So this is just a little bit of what we are performing in Latin America. We are a supplier there. In every market, we are in the top five – top six, so that's basically what we are doing in our region. Thank you very much.

Unverified Participant

Okay. I think we're going to take a quick break, which is going to be about 15 minutes. So there is some beverages out there if you like a quick break. We'll be back here at and start again at 10:10 AM.

[Video Presentation] (01:52:24-01:52:48).

[Music] (01:52:50-02:07:07).

Unverified Participant

Okay. We're going to go ahead and get going. If everybody can return to their seats, and there's presenters back up stage. Okay, please, we're going to go ahead and get going. So everybody back to your seats.

Okay, our next section is going to be a focus on research and development. We're going to start with Tage Ramakrishna, who heads up our R&D function as well as Dr. Todd Plott. And I'm going invite them to come on stage and we're going to go ahead and start with Tage.

Tage Ramakrishna

We'll go ahead and get started? I'm Tage Ramakrishna. I'm the Chief Medical Officer and Head of R&D at Valeant Pharmaceuticals. I guess you could say I'm the mythical unicorn behind Valeant's, as perceived in the press, non-existent R&D functions and department. So I hope you all have your popcorn ready. It's going to be a relatively

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larger presentation than some of my colleagues, but we wanted to do was to help dispel some of the myths, the rumors and the inconsistencies around R&D, our strategy, and our philosophy, our model at Valeant.

Prior to me going into the deck, I've a short video to give you everyone a chance to hear from some of our employees who are in our R&D group. And could you please give....

[Video Presentation] (02:10:08-02:11:45).

This slide is a quick snapshot of our R&D engine. Six NDAs approved in the last three years; 13 510(k) and PMA approvals in the last three years. So for the NDAs, some of the products that we've seen earlier today, for example JUBLIA, ONEXTON, our ULTRA contact lenses. We have over 200 active U.S. programs going on right now within Valeant. We have 43 R&D facilities. We have over 1,000 R&D and quality employees. And within the R&D organization, we have well over 100 employees with end-stage terminal advanced degrees, such as MDs, PhDs, PharmDs and JDs and DMDs because of our dental program also.

Some of the key messages and takeaways that I would hope everyone can take away from today. We have a distinctive R&D model with high-quality people. Our robust pipeline positions us well for future growth. I'm going to go into some of our pipeline today.

We are the most productive R&D organization in the industry. I'm going to show you some data that will show why we believe this is true. We have a strong track record of launching products. So you saw Deb earlier today, Mark McKenna, Joe, some of my other colleagues. These are products that have come through our R&D engine here at Valeant. And then also, we're very, very excited about numerous upcoming launches due to the R&D efforts within Valeant.

So many may think or may have heard the falsities around there is no R&D at Valeant. The only way to say that is it is absolutely completely untrue. We have most of the same functions, activities as any other pharma company, biotech company, throughout the globe. Our study design, we leverage therapeutic expertise. We take input from KOLs and customers throughout the development process. We consistently collaborate between our commercial colleagues and the R&D employees within my team from the inception of any type of program.

We outsource, rather than fixed infrastructure, which is a model that has been undertaken by most pharma companies in the last 15 years to 20 years in terms of using CROs in operational aspects, which will be best use those funds for more strategic functions within the company. And we have internal expertise in regulatory, global pharmacovigilance, quality and medical affairs.

What makes our R&D functions at Valeant much different than not just our model and our strategy? The fact is we are an output-driven organization. The inputs don't matter to us. What matters to us is the output, the products that we can bring to market for the patients and physicians to help everyone have a better quality of life. And what you'll see, there is some key takeaway that you really should understand from our model, which I've tried to capture an overview for you.

One of the most important things what I like everyone to understand is, we're unencumbered at Valeant. When I say unencumbered, there has never been a time where I've sat down with Mike and the rest of the management and the board and they've said, you have 2% of revenue for R&D and that's it.

How it works at R&D for Valeant is, I come to the table, I say these are all our R&D projects, these are our goals, this is what the commercial organization has told us, this is what we've developed internally, this is what our physicians in the field have asked me and my colleagues, is there a treatment for this? Do you have an idea about this? And we put everything out there. And what we do is we develop our plan. And the plans that stick, they get funded and they get funded 100%. And whatever that number is, that's the number. And so, what that means is, we empower all individuals and regions to make their own decision in terms of what they feel is needed for their territories.

Another thing is there is no political or pet project within Valeant. So I'm sure all of you may know, at any pharma company, biotech company, there's many leaders in the organization that are married to compounds, they're married to projects, clinical trials, because that's their career. They're worried if something happens, if that drug fails, if that

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project fails, that's the end of their job. In my department at Valeant, no one's worried about their job security. I have plenty of products coming through the pipeline. All I want are projects and products that are going to come through, will eventually get approved and will be a benefit to the patients and physicians.

We don't have endless meetings and nominations and a meeting to hold a meeting for a nomination. If you walk into any R&D facility in big pharma or biotech, you'll see outside of their conference rooms, they used to have sheets, purpose of today's meeting, what we're going to nominate; and then the next sheet will be, did we hit those goals. We go in, we have a decision to take; we make those decisions. And we're all empowered to make those decisions.

Everything I do is data-driven. The data speaks for itself. I believe if we look at the data and we can truly understand the data – and if I don't understand the data, if someone on my team doesn't understand the data, no one – feels that they have all the information necessary, we will reach out to other experts in the area to help us understand this data. One of the reasons I have Dr. Todd Plott with me today is to talk about two of our late-stage dermatology programs, because this is an example of what we do.

We embrace incremental as well as transformative innovation. So due to the fact that we have this model that Mike has built with the board that is all about output, size of the idea, of the program, is not important. It's will it be successful. So we get programs and ideas and compounds from many, many areas, internally, externally, through ex-colleagues, through people that we meet at conferences, whatever the case may be, but we evaluate every single one. And we also partner with third-parties like most companies do, but we try to look for partners that will work within our scope. So we're looking for innovative partners, partners than can do modeling, so we may not have to run the large clinical trial that will most likely fail.

I think that last point is this where you see, we terminate non-promising assets early. Everything is based on data. This is in my view, in my opinion this is the fundamental problem with almost every big pharma company, and biotech company in the industry today is the reason – if you've noticed in the last five years there has been numerous Phase III clinical trial failures, properly designed clinical trials, you go through your Phase I first and then understand your safety data; you go to Phase II, you have a true proof of concept, you establish your dose; and then you go to your Phase III confirmatory pivotal trial after meeting with the FDA.

What's happening? They do the programs one through two, there's a decent proof of concept, not a 100% there, but the team needs to take it forward, because that's what the management says. They promised it to Wall Street that this product is going to be a \$1 billion product, a \$2 billion product. The two large global Phase III trials, \$50 million, \$100 million, \$200 million, those are small numbers nowadays in Phase III trials. And all of a sudden you read that the Phase III trials have failed and then they say, well, there is a promising signal, we're going to do two more Phase III trials.

I don't do that. If I don't have my signal and I don't have my data early on that's going to show me a clear path to approval, I won't bring it forward. I'm not going to bring that to Mike and I'm not going to bring it to the board, because this is not only your money, it's our money and it's our patient's time and it's a waste of valuable development time because of the timelines now with not only the FDA, but the EMEA and all agencies. You're much better served having data that you can stand on this data, you can bring it forward versus continually developing – developing and developing assets that will at one point in time never get approved.

This slide, I believe, speaks for itself. It's pretty self-explanatory. On the right-hand side is a quote by the late Steve Jobs. As you know, we're not in the tech industry; we don't have a phone coming. But, however, he had noted early on that innovation in R&D has nothing to do with the dollars spent. We believe this is a testament to our R&D strategy and our model.

As you can see, there is all those companies and for everyone knows who they are, this is a measurement – this data is not put together by us. All the data in my slide is all – not just this slide, also our third-party sources is the number of NMEs, which are New Molecular Entities, or BLAs, Biologic License Applications, approved per \$1 billion of R&D spend. So I'm sort of – many of you like math, just like I do. It's very clear to see.

This is a slide which is probably in my eyes the most powerful slide that you will see today. What this shows is the level of success for all of our dermatology clinical trials that we have done from 2011 to 2015 against our competitors;

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so is that date, because I started in 2011, so it moved by.

Phase I, so your Phase I typical first-in-man studies, a 69% success rate for us versus 55% for the rest of the industry. Phase II is your proof of concept studies, your dose justification studies. These are studies that you should be designing to fail, because you want to get your failure right at Phase II. We're at 56% versus 18% for our competitors. Phase III, this is the one that tells the true story. You can find another company that has 100% success rate in their Phase III clinical trials – this is for our dermatology versus 20% for industry; simple math, five times.

Our R&D model of this output driven strategy works globally, because as I mentioned before, we empower our team to make decisions what will work in their areas. And so, as you can see, for the local markets, this is a quick snapshot of the number of launches from 2014 to 2015.

How do we build our internal R&D pipeline? So I'm sure this is a shock to many of you that there is an R&D pipeline, right? So, three pillars of how we've built this pipeline. We have internal capabilities. So when I say internal capabilities, we have 100% true clinical research capabilities from basic science, wet labs, all the way through the entire clinical trials, clinical development process, through approval and to launch. Examples of that is in the dermatology area of Jublia and ONEXTON, which were brought through our internal capabilities in our own labs.

Dermatology is what I'd say is our area that we have the most experience right now in terms of building this R&D strategy in the R&D outlook model, because this is our first area of therapeutic expertise that we've built. It was the first one that when Mike had purchased the Dow Pharmaceutical organization. And so, of course, so that is the most seasoned area of expertise for us. But now what we've realized is, we had the strategy, we've put this strategy in place and it worked.

And the previous slide where I showed you with the 100% success rate, we know it works. So now what we're going to do is we're going to do the same things in ophthalmology, in gastroenterology, in oncology; and the other therapeutic areas that we have, we're going to build out those levels of expertise. We're currently doing that now. Some areas will be better served where you can partner and acquire assets, for example, in the oncology areas. But other areas, where we believe that we're going to be the number one player at gastroenterology and ophthalmology, we're going to have the same capabilities and we already have started that process. And so I feel very confident that the pipeline in both GI and ophthalmology will be just as strong as our pipeline in dermatology which we'll see shortly.

Inherited; so we've acquired companies. We've acquired a lot of companies. Everyone knows that, right? We have Bausch & Lomb. We have Salix. With Bausch + Lomb, they had a large portfolio of compounds in their pipeline same as with Salix. What we do with every acquisition of a company is we put those compounds in a very, very strict – I'd have to say almost I guess everything funnels through. And many times other companies' pipeline products, they don't pass their own test. The only reason being – because a lot of times, it's the proverbial lipstick-on-a-pig. That's what happens with a lot of compounds. There's a lot of work. I believe we're very good at determining is that a diamond that's going to be polished through, and what happens is sometimes they are. So we have some great compounds that we're bringing through from Bausch + Lomb and Salix, but we've also realized we need to continue to build in those areas.

Thirdly, we have a great team that goes out and looks for assets that will thrive with our commercial quality and our R&D philosophy. One of those is broda, our recent partnership with AstraZeneca. They have a phenomenal R&D team. We spent time, got to know them, looked at the molecule, the compound. We felt very comfortable with the safety and the efficacy of the compound. As you see, I did say safety first, because we know – we do know that there was talk and issue around the safety as a molecule. We've looked at that. We've met with the agency. The BLA has been filed. So we are very, very excited about the future of broda and what that is going to do for patients that suffer from moderate-to-severe psoriasis. Dr. Plott is going to go through some of the data that was – most recently in The New England Journal article that described the Phase III pivotal trails which were part of the submission for broda.

And then addyi, first treatment approved for women premenopausal HSDD. So this was a compound that we knew we had a great commercial organization. The efficacy is very clear. The safety is very clear to us. And so we felt this would be a great opportunity to create a women's health organization for Valeant. And the R&D capabilities in this

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area, there's plenty of products, there's plenty of compounds currently in development that we have put through our system where we believe we'll be highly successful in this area.

What I wanted to do was, give you an idea of, when I talk about our output-driven R&D model, what that actually means in terms of numbers. I mentioned earlier that we had over 200 active U.S. programs within Valeant. What I did hear was – wanted to give everyone a snapshot. These are what we consider significant programs currently in development in these therapeutic areas. And what we did was we took a snapshot, five years – from December 2010 to now. As you can see, in dermatology, we had nine compounds back in December 2010. We've almost doubled that today, December 2015.

Consumer, we had 17, again almost doubled that to 26 as of this month. Ophthalmology, we had one compound, we had – that was a compound called LACRISERT. With the – where we are with the P&L pipeline, we currently have seven.

Surgical, contact lenses, and GI; we didn't have those therapeutic areas back in 2010, but there is a snapshot of the number of compounds that we have that are currently programs in development.

What have stayed in others? Others include programs in aesthetics, women's health or generics. So we had five back in 2010 and in five years we currently have 17. So it gives you an idea of where we are with significant programs within the R&D pipeline.

So you can see that the pipeline is just not all late stage, there's not a cliff, it's not we're not going to run out of projects next year 2017, 2018, 2019, Mike has said, the board has said, we've built this company for the long-term, and so we're building this pipeline for the long-term.

So as you can see we – in dermatology, which is what I mentioned previously, we are most experienced in our research capabilities. It's almost a 50/50 split in early stage and late stage development programs.

Consumer, As Mike mentioned before, consumer development is much faster than Rx and pharma and any type of generic development. So you always go from early stage to late stage very, very quickly because the regulatory process is much faster.

Ophthalmology, this is an area I mentioned earlier that we want to continue to build out those capabilities, because most of our compounds are in late stage development in our ophthalmology area.

Surgical, we decided when we first bought Bausch + Lomb that we really wanted to build the surgical business. We put a lot of effort into looking at what we can do to improve the surgical pipeline and we're very happy with where we are.

And then contact lenses. So Mark has done a phenomenal job with the launch of ULTRA and the other lenses coming down. He consistently says we need to bring more, bring more, because there's been such a dearth of innovation in the contact lens space. And so we have currently six in early stage development. These are all new materials we have. In Rochester, New York, we have full capabilities to develop new novel material for contact lenses.

And then, GI; we have more compounds in early stage development in GI, because it's another area just like ophthalmology that we're going to continue to feed this pipeline to develop products that will help build-up and make the GI area more robust.

This is a color-coded slide, which doesn't help me much, because I tend to be color blind. But there is red there and red is important, and I'll tell you why the red is important. Any program you see with red was done internally by Valeant R&D. On the right side is your Phase III program and programs that are at the FDA currently for review. So, for example, if I go to the right, start with the right, our IDP-118 programs late stage Phase III; there's currently three ongoing trials in Phase III, two safety and efficacy trials, one long-term safety trial for moderate-to-severe psoriasis as a topical. Novel compound, developed completely internally. I've asked Dr. Plott to talk about the benefits of a compound like this for patients with moderate-to-severe psoriasis even with the current onslaught of biologics in this market. We have broda that I spoke about. We have another compound there for CME. We have latanoprostene bunod, so it's another novel compound that I'm going to give you a little more background on.

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Latanoprostene bunod is currently at the FDA. It's been submitted. We are looking forward to approval. Hopefully, everything goes well in 2016. We have Relistor Oral. Relistor Oral is a compound that we got when we acquired Salix. What most people don't know, I actually developed Relistor Oral at my previous company, sold to Salix, then got it back. So it's like my kid came home and I am worried that my kids are telling me they'll come home again now. So, I think, we're all running through the same problems, right? But this is a compound. It's methylnaltrexone. It's the oral formulation for patients with opioid-induced constipation.

Currently Relistor is on the market as a subq formulation for patients with opioid-induced constipation with the indication of advanced illness or chronic non-cancer pain. When we developed an oral formulation – we all know most people don't like needles. When we first developed Relistor and I was in my previous company, when it was a subq, it was fine because most people with advanced illness had other medications. They'd be in hospice care, that they were used to getting injections, but when you get into the chronic non-cancer pain patients that take opioids for daily pain, back pain, post-surgical pain, knee pain whatever the case it may be, they don't want to take a needle as much.

But the issue is also with – always when you have a subq type formulation, the exposure is much more rapid in the body. And what you want with a product like Relistor is you want a predictable and durable response, because if you think about – where Deb has her colon chasing her with diarrhea. It's complete opposite, someone's constipated. They can get diarrhea at an impromptu time. And so with many of these compounds, what happens is, we try to mimic what the subq could do, and I'm going to show you the data with an oral formulation, so patients could take this and go about their daily lives and get back to a higher quality of life.

On the left side, we have our products in early stage development. We have RUCONEST for – which is currently indicative for HAE, we're going for another indication. We have, there is a – from – you see that SPT-201: HSDD. This is a – the compound of addyi that we got from Sprout. And we're now looking to do another indication, important, in postmenopausal HSDD. And then, of course, you can see all the dermatology compounds with the red dots. Anything with a red dot was done internally through our R&D engine at Valeant Pharmaceuticals.

With our OTC pipeline, I'm not going to go through every single one, just wanted to touch a few areas that – we try not to – we try to share the love in this organization with Joe. And so you have OBG, that's our Obagi that's aesthetic; we have PUR, that's Purpose; ACF, acne free. The right side of the column is CeraVe, as Joe mentioned, the fastest-growing consumer brand in that area. We have our nutritionals. All the red dots, everything was done, developed internally within Valeant R&D.

Our devices pipeline. So what we consider on our devices. We have our surgical devices, our IOLs and those types of devices. We have the yellow, the contact lenses, you heard from Mark McKenna today. The dark grey, I believe it's dark grey, because that's what they told me it would be. Also that's our Solta aesthetic, that's Fraxel. So we have new devices coming for our aesthetics organization.

And the ex-U.S. As I mentioned previously, our ex-U.S. pipeline follows the same model of R&D, output-driven not input-driven, look for what's needed in their areas, their territories, their physicians, their commercial organizations and build your pipeline, so a lot of red. And that's all internally done by Valeant R&D.

So here is the ex-U.S. generics pipeline. Not so much red. And what that means is ex-U.S. they have the unique opportunity to buy dossiers and file these dossiers and have a branded generic product. And so they've done a great job with being able to identify these compounds get the dossiers, file them quickly and be very successful with that approach.

I'm going to quickly talk about two compounds that I mentioned earlier. One is Relistor Oral, the second is latanoprostene bunod and then Dr. Plott is going to talk to you about the IDP118 and broda.

As I mentioned earlier, Relistor Oral. This is the oral formulation of methylnaltrexone for opioid-induced constipation for patients with chronic non-cancer pain. There's basically two areas that are the standouts. I've put those in the red box is, this number 27.4% with the oral percent of respondents with a rescue-free bowel movement taking the oral formulation of 450 milligram.

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This number here, this comes from the Phase III clinical trial 3356, which was used for approval for the subq of 28.9% of 12 milligram once day for the subq formulation of patients that has a rescue-free bowel movement. So as you can see, you're going to take an oral tablet and get almost the same similar efficacy as you do with the subq injection. And that's the box call out right there.

Latanoprostene bunod; this is our novel molecule for lowering IOP in patients with open angle glaucoma or ocular hypertension, is a novel molecule in terms of latanoprostene coupled with nitric oxide. As most of you may know that nitric oxide plays a key role throughout the body in many, many functions. What has been shown is patients with glaucoma have lower levels of ocular nitric oxides than measured in patients with normal eye. And what we found is LBN, lowers IOP by increasing the outflow through both the uveoscleral and trabecular meshwork pathways.

Tracy mentioned that the PDUFA date is July 21 of next year. This is the Phase II result for LBN. What I wanted to really point out for you was the top in red is the latanoprostene bunod, in blue is latanoprostene itself. As you can see the separation is statistically significant in terms of the IOP lowering and you can see it's more zeroes you get past the decimal point – okay, I'm sure most of you at this point understand that, is a very nice result that show the benefits of the developing compound with the nitric oxide versus the latanoprostene by itself.

The Phase III pivotal study. Two quick bullet points, because the reason is that this molecule is now at the FDA as Relistor through the review process. The Phase III pivotal studies resulted in a mean IOP reduction of 7.5 mm to 9.1 mm, which were superior, statistically superior to timolol. The nice thing is that the safety of this molecule was very similar to what we saw in timolol, what we saw in latanoprostene, so we feel very comfortable that this molecule is going to be a great asset for physicians to treat their patients with open angle glaucoma and ocular hypertension to get the patient's IOP under control.

With that being said, I was going to introduce Dr. Todd Plott and Todd was gracious enough to join us today to talk about two of our compounds that we currently have in development. Thank you. Todd.

Todd Plott

My name is Todd Plott. I'm a dermatologist. And I practice in the Dallas/Fort Worth area. Prior to going to private practice, I led the development of products at Medicis Pharmaceutical company. So I began with SOLODYN and VANOS and ZIANA when they were just ideas and put them through the FDA process. I think of them almost like my children sometimes. It took a long time to deliver that.

I've been in private practice now for enough time that I have a pretty good idea of the difficulties that we've had in getting products to patients and I want to talk a little bit about that. But, I'm also an unpaid consultant for Valeant, and I'm just here on my own.

I wanted to give you my observations about access to drugs just in general, because it's been a hot topic and a lot of that – a lot of my talk has been totally answered with the announcements that came yesterday. But I do want to have you understand that every time I look at a patient and we make a diagnosis, the next thought is, okay, we'll what drug are we going to use. And then the next question is how are we going to get that product to a patient. It's becoming more and more difficult as we go through. The dermatologists use special products, because if you can imagine that you've got a rash all over your body, you're covered head to toe and it's miserable, itchy, and you can't just put anything on that.

You can't just give patients like just something off the shelf. It's got to be something that's going to rub in, it's got to be something that's effective. It can't be too goeey or – imagine trying to put your suit on today after you put on a bunch of Vaseline. It's just not going to work. So dermatologists are very particular about the formulations that they give their patients, because we have to wear this all the time. Not just today, but for the – in the case of psoriasis patients, they have to wear something almost all the time. Something on their knees, on their elbows, places where the sun doesn't shine.

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It's – it can be very uncomfortable and it can be embarrassing when products stain clothes. The point is that getting the right product for patients, knowing that this particular product is going to work, it might be branded, it might be available generically. It's important that we have access. So we're trying to look at insurance coverages and what happened in our marketplaces. These access programs have been very important for our patients. When our patients have access to these co-pay assistance programs, they are able to get the medicines that they need. We're able to get for them medicines that make a difference in their condition.

They're going to use these medicines if they go on and they're pleasant. Not every medicine is that way and maybe their plan covers it, and maybe it doesn't; but with the co-pay assistance programs, this makes a big difference. I think that the program that's been announced will be tremendously helpful for us dermatologists to provide the right product to these patients.

So I'm very excited about that. I just wanted to really point out how important they are because when patients get the right product, they get better. And that's really what our goal is, that's what causes us to want to come to work every day, to be able to see the change in the life of patients when they get better.

The other product that – I want to change gears just a little bit. I was able to come to some of the R&D reviews and I've been through an R&D review with the management team and looked at the different pipelines of products. And one of the products that I was asked to highlight today is IDP118. I've been involved with IDP118 since it was conceived. It was a product that began at Dow Pharmaceutical Sciences and I wanted to point out also that VANOS and ZIANA came from Dow Pharmaceutical Sciences. There's a lot of products that we have in dermatology began there, at that facility in Petaluma and it has really been the company that's generated that particular part of Valeant Pharmaceuticals is really where most of our products in dermatology have come from.

And so this is not different from that. IDP118 is a very, very interesting product. They are combination of a topical steroid that we know and a retinoid which is – and the topical steroid is something that we use all the time for psoriasis. It's something that we don't like to use too much of, because it has side effects. And one of the benefits of adding tazarotene into it is that it help reduce some of those side effect, but it also treats psoriasis. So it's a topical product. It has some unique characteristics something that I don't believe that we have in the dermatology community today. That's why when we obtained the Phase II results that you'll probably see more of in a publication that the combinations of that – of this product was much better than the individual ingredients. And so that product is moving on to Phase III studies and those studies are expected to complete late next year. It's a very exciting product, because for patients, even though they are on a biologic, they still need a topical many times, they still have an area that's not completely covered, because the biologics don't always give us a 100% health clearance of the disease.

The other product I wanted to speak about was brodalumab. It's a interleukin-17 receptor antibody. And the results for the two Phase III clinical studies have already been published. They're available in The New England Journal of Medicine back in October. It's actually a very interesting compound. It provides some evidence of efficacy beyond one of the products that we already have in the clinic. And that's kind of unusual, because when we look at compounds, we don't often get a direct comparison with something that we're already using. We're always asking is this better than what I'm using now. And in this case, we've got an answer to that. In fact, the results show that it was twice as fast as achieving a mean response time than its active competitors.

This gives you some of the idea, if you're not familiar looking at a little bit of the data, PASI 75, means the percentage of patients that achieved 75% clearance of their disease. That's pretty amazing. That's the gold standard for how we judge these biologics now. And you can see that 85% of the patients in this study with brodalumab achieved that. That's very significant.

If the company went further, how many people achieve a PASI 100? 100% clearance of their disease. And 37% of the people achieved that. That's amazing. I'd like to give this product to someone, it's an injectable, it's going to be administered in 37% are going to get complete clearance. It's an important number. It's tremendous.

It's important to understand that, also with relation to IDP118, while it's really good, it's not a 100%, there is still a significant number of patients that don't get complete clearance and they're going to need both a topical product like

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IDP118, they're going to need something like this. So there is room for both of these and it's very exciting to have these advances in psoriasis. And I think it's going to be a tremendous help for patients in the long run.

Those are the couple of things that I wanted to highlight. Thanks a lot. Thank you.

Tage Ramakrishna

So just in closing for the R&D strategy and model that I went over with, I hope you found that was helpful and I just wanted to touch on three key points. We have a history of success across key therapeutic areas. And when we get a new therapeutic area, we are determined to be the absolute best in that therapeutic area also.

Secondly, we believe strongly in the data shown that I presented today, that we've invested intelligently in R&D to build a very deep and exciting pipeline. And then, lastly, I myself am extremely passionate about the R&D model at Valeant. And it's just not myself, it's just – we have many, many people in our department throughout the globe. And one thing in particular, during this whole process other people have mentioned Deb and Tracy and Mark and Mike had mentioned, in terms of the retaining that, we have had no one leave from any management position that reports to myself or any other Senior Director, VPs during this time. And another thing is, we have no shortage of being able to recruit top scientists. Just in the last month we were able to recruit two board certified, one urologist and another ophthalmologist at the end and we have them day after day coming in. And the reason that we're able to do this is, I mentioned before, is this unencumbered process to R&D, un-political.

And so if they have an idea, how they can build the pipeline on an asset, then we allow them to run with it. And then the only judge – it's never a career ender at Valeant. The only judge will always be what the data shows from the compound and the molecule.

With that, I would like to say thank you and bring Mike back upon.

J. Michael Pearson

She's going to read that.

Unverified Participant

Okay. Now, the time you've all have been waiting for Q&A. So we are going to invite our panel up here, and as they're coming up, we have two microphones that are scheduled down here. You are – we're asking everybody to come down and ask a question and everyone will be here to answer them.

Before we begin, I do want to say that during the Q&A session, we're not going to be taking any questions or addressing matters regarding litigation or government investigations or inquiries or anything about the ad hoc committee which is obviously extremely independent, so we're not going to be answering any of those questions today. But, obviously, hopefully we can answer your questions that you have for the last few hours.

And, with that, I will have Mike come back up. We're running a little ahead of schedule, so that's good for everybody, right.

As you can see, everybody here has been up pretty much. We're also joined by Pavel Mirovsky; we have Anne Whitaker; we have Linda LaGorga; and we have Dr. Ari Kellen who is joining us as well. And I'm going to turn the podium to Mike.

J. Michael Pearson

Thank you. I'll field the questions and pass them along to the appropriate...

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Q&A

<Q - Christopher Thomas Schott>: Hi. Great. Chris Schott from JPMorgan. So a couple here. First, can you talk about the 2016 cash flow? I mean, just walk us through the \$7 billion ballpark kind of EBITDA guidance and how that translates back to cash? That's my first question.

Second, you gave us the Q1 EPS. Can you talk a little bit about the phasing of earnings beyond Q1? How quickly we should think about the earning ramping? And the final one is just so unclear, on the Walgreens relationship on the direct distribution piece. Can you maybe just compare and contrast for patients and physicians how that program is going to look and feel relative to what you had in place at Philidor? Thank you.

<A - J. Michael Pearson>: Sure. Rob, do you want to take that?

<A - Robert L. Rosiello>: I'll take the second one first. The phasing, if you think about the Walgreens program, there were two decisions to understand: the value of the program over time, and then the implication both in Q4, in particular in Q1. And that led us to make – the expectations that we have on Q4 as well as Q1, and depending upon how that ramps up. When you look at it we feel, as I think, we said on the previous investor call, that by the second half, we expect to get the derm business back. We obviously hope to beat that.

In terms of the cash flow, we're committing to this minimum pay down of \$2.5 billion. You can interpret from that there is a little bit of cushion in there, but it is a vast majority of our cash flows that we are going to devote to debt pay down.

<Q - Christopher Thomas Schott>: Could you just elaborate a little bit on the \$7 billion, just kind of walking us through the offsets that \$7 billion of EBITDA that get us to a cash flow number that I think the \$2.25 billion of debt reduction you're talking about?

<A - J. Michael Pearson>: Go ahead, Anne.

<A - Anne C. Whitaker>: So primarily you're going to have your past interest expense on your cash tax expense. In addition to that, there is working capital that we expect as you would in any growing business, and then, you've got contingent consideration payments, milestones, et cetera. For example, there is one that would be due if brodalumab is approved.

<A - J. Michael Pearson>: Okay. And Ari, do you want to talk about the patient and doctor experience with Walgreens?

<A - Ari Kellen>: Yeah. I think the key elements is to focus Chris on what's better, we think is, number one, patients will get their medicine the same day if they have commercial insurance business waiting two to three days for mail order. Second is the opportunity for a consultation with the pharmacist if a patients chooses to do so. So for us it's all about access to the drug as Dr. Plott said, access to drugs that a patient – that a doctor writes at an affordable price and that's what this program does. Everyone knows Walgreens. There's no question. So another way to explain what it is, it's a new company, new entity, Walgreens as Michael said, is a trusted, well-known and highly respected name and that are all over the country and hopefully will continue to expand. [indiscernible]. Thank you.

<A - J. Michael Pearson>: Thanks, Chris. Can we – why don't we go back and forth. Thanks Chris.

<Q - Annabel Samimy>: Hi, good afternoon. Annabel Samimy from Stifel. I just want to understand the logistics behind the Walgreens arrangement. What kind of co-pay assistance or co-pay borrow or buy down patient assistance programs are you still going to be supporting under this program? Are you – specifically for drugs that aren't well covered or for patients who don't have proper coverage.

And obviously you guys are much – are a very large company with a very diverse portfolio and you're essentially bypassing the PBMs, so what kind of response are you getting from the PBMs with regards to this program? And then, finally, why does Walgreens feel that they need to hire a third party to come in and assess model? What kind of things

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can possibly turn of that that might not be legit?

<A - J. Michael Pearson>: Okay. In terms of the co-pays or what people will pay, insured or non-insured cash pay for example, again eligible patients, not those covered by the government will have complete flexibility in terms of what those co-pays will be. And Deb and Ari and team will figure that out, I think early on. As we've said in the press release, many of the products will have a zero co-pay. We want people to try this offer. We think they're going to like it and will be prudent fiscally too.

So the second – actually we're not bypassing PBMs. PBMs are mail order and this does not include mail order. So PBMs continue to ship our products. And most of the products that are in this program are not mail order products, maybe the exception of JUBLIA, where there is 11 scripts, but most acne medications are course of treatment of three months, so those tend not to go through but the [indiscernible] but the PBM will continue to earn their administrative fee and they will continue to pass along discounts to the clients. So it doesn't change the economics at all. And we're still selling our drugs to the PBMs.

<Q - Annabel Samimy>: And the...

<A - J. Michael Pearson>: The third one?

<Q - Annabel Samimy>: Yeah.

<A - J. Michael Pearson>: This was not – no one is worried about something going wrong with this. What we wanted to do with Walgreens is – we think this is going to be very successful in terms of lowering system costs and measuring patient access. We want to provide – so we'll argue we're going to save the system money, it's going to make doctors happier, it's going to make patients happier, it's going to make pharmacists happier. And we're going to measure that and report collectively and we thought having a third-third be involved in that would be helpful.

<Q - Annabel Samimy>: If I could just ask a follow-up the discount that you're providing to Walgreens, is that a discount that payers are also going to be enjoying ultimately?

<A - J. Michael Pearson>: So Walgreens never buys any of our products. They holds and sign an inventory. They never take title. So they got a fee. They got two fees. One for distribution within their own set of stores because they have DCs that we'll ship to and then they'll keep their retail stores actually stock. And then they get a filling fee which is the cost of – the time to fill the medication and also services that they provide. For example, call center to follow up on, if you want to get your refill. They'll do – they'll have a department with prior auths, working with physician offices. So there is a bundle of services they'll provide as well. In terms of the actual drugs themselves, we will be, in a sense, selling them directly to the patient or the payer. And so they will get all the savings that are passed along.

<Q - Annabel Samimy>: Thanks.

<Q - Shibani Malhotra>: Hi.

<A - J. Michael Pearson>: Hi, Shiba.

<Q - Shibani Malhotra>: Hi. Shibani Malhotra from Nomura. So I have some questions that actually follow-on from what Annabel just asked you. But I guess – and the first one is just maybe a bit naïve, but Walgreens is a retail pharmacy and the decision to reimburse still lies with the PBMs and the payers. So how comfortable is Valeant that you will get reimbursed for these products? And what sort of assumptions are you making when you're making out – working out your projections for the future; and in particular, how should we be thinking about gross margin impact. So that's one part of the question.

And then the second part of the question is, you've talked about how this could be a benefit for the healthcare system more broadly. But, yesterday, you did also say that you didn't plan to expand it to other large sort of retail pharmacies. So why would you not be looking to do that?

<A - J. Michael Pearson>: All right. In terms of the first one, in terms of payer-PBM reaction, it's something – I've not been talking to a lot of payers of PBMs over the last – where I've been, but we will, but our team has. And a lot of

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payers called it was a terrific program. And we make sure that we can be involved in it, because we want to get the brands for – that could benefit if you're a payer or you are an employer. It's a great advantage to your employees to get these medications to them. And they particularly liked this generic idea, right, which is, wow, it's not going to cost me anymore and I can tell my payers or my members that they can get this. So they were kind of excited about it and they want to work with us.

And – so I think once people fully absorb this, this is truly a good thing for patients, for doctors, for pharmacists. And it's not going to cost the system any money. In fact there's going to be less. It's lower cost. Gross margins, you're talking about the second part of the program?

<Q - Shibani Malhotra>: Yes. I guess my question is, what assumptions are you making in terms of the percentage of prescriptions that would be reimbursed? And then, on that gross margin?

<A - J. Michael Pearson>: I can say we – I think we have very conservative assumptions. This is the year of getting the program launched. We do not assume a lot of growth especially in the second program.

<Q - Shibani Malhotra>: Are you assuming a lot of prescriptions don't get reimbursed I guess?

<A - J. Michael Pearson>: Oh, reimbursed. Well, no – we have contracts, right? We have contracts. We now are sort of managed care. In fact, earlier – addyi, we were talking about addyi. Anne and her team has done a great job. We're 50% already on addyi, which is very unusual this early in a launch and we're still working on the second 50%. Once we get that secured, then we'll know what percent of prescriptions will get reimbursed for addyi and might we have a cash pay option through Walgreens, maybe we will.

In terms of this program, we're still going to sell our drugs to – they'll be available elsewhere. And, obviously, whenever you do a deal with someone, both us and Walgreens wanted something that would make sense for both of us. And I think hopefully this will help. Skin care as a category is the biggest category in the drug store. And so I think Walgreens is excited about having a lot of dermatologists sending their patients to pick up their meds.

<Q - Shibani Malhotra>: Great. Thank you.

<Q - David Brecht>: Hi. David Brecht, Pioneer Investments. I just had a question about the retention program – the new retention program. What – how many employees, first of all, are covered by the retention program and what are the general terms as far as tenure and exercise pricings like that?

<A - J. Michael Pearson>: Rob, you want to comment to that?

<A - Robert L. Rosiello>: Yeah. I think the number is roughly 700 folks. For the top of the house, it was RSUs, which vest in 12 months and are paid out in 18 months. For the rest of the group, it's a combination. They could pick a combination of cash, a mixture, or all equity. Again, I think, vesting in 12 months, paid out over 18 months. This theory of it was we wanted to give people something that would get us through a period in which we need to reestablish the business. It was value the day that we granted it. And as I said, there are RSUs. And as I mentioned in the presentation that \$75 million is our expectation of what it will be in 2016.

<Q - David Brecht>: So they were basically – the strike price is basically the day that you issued it and then it just basically goes out 12 months to 18 months, or how does that work?

<A - J. Michael Pearson>: They'll go up or down, right?

<Q - David Brecht>: Okay.

<A - Robert L. Rosiello>: We valued it the day it was issued, it will go up or down...

<Q - David Brecht>: Yeah.

<A - Robert L. Rosiello>: And then it vests I think in 12 months and they get it in 18 months.

<Q - David Brecht>: And when was this issued? When was the program formally put into place?

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<A - J. Michael Pearson>: We'll have to get back to you with a precise date. But if you're asking what the share price was?

<Q - David Brecht>: Yeah, basically I think.

<A - J. Michael Pearson>: I think in low \$80s.

<Q - David Brecht>: Okay, great. Thanks.

<A - J. Michael Pearson>: And I also want to mention that – obviously I'm not involved and none of the EMT...

<A - Robert L. Rosiello>: None of the EMT...

<A - J. Michael Pearson>: None of the EMT are involved in this program.

<Q - David Brecht>: Okay, great. Thanks, Mike.

<Q - David A. Amsellem>: David Amsellem from Piper Jaffray. So a couple of high level questions. First, can you talk about the extent to which you're exploring strategies to potentially accelerate the pay down of debt inclusive of selling off a segment or segments? That's number one. And then, secondly, with the performance of certain division that's fairly strong such as GI division, Bausch + Lomb, do you get to a point at which if you have not seen sufficient multiple recovery, do you then explore a potential breakup of the company and how do you think about that? Thank you.

<A - J. Michael Pearson>: Sure. We're not exploring any divestitures of any of our units at this point. The one unit that we talked about earlier was neuro but through this – what we think is an innovative program with Walgreens which has given real – new life to that area of the business. So we think that's going create a lot of value that will become unlocked. And at least – it's important I'd share, we haven't even contemplated the breakup of the company, because we're very confident in the performance of this company and the fundamentals are there and you'll see it. You'll see it quarter by quarter by quarter. And our price flow then reflects the fundamentals. We just went through a period that the shorts attacked us, they attacked us hard, and that's fine. They said what they had to say and it's our job to prove that every allegation they made is false and that's what we're going to do.

<Q - David A. Amsellem>: Thanks.

<Q - Cindy Guan>: Hi. Cindy Guan from Goldman Sachs Credit. Two questions. First, it was really helpful to see the breakout of each of the components from the \$7.5 billion to the revised \$7 billion. I was wondering if you could provide similar component breakout as a bridge from 2015 as it builds up to the \$7 billion in 2016. And then second, specific for credit, you referenced the \$2.25 billion debt payment outside of the loan amor and maturities.

Does this number also include the \$800 million or so of revolver borrowing, leaving about \$600 million or so for bond? And if so, what factors do you look at that are most important as you think about which bond tranche to target. Is it about coupon, is it about which low – or dollar trading price or covenant differences between the bonds and how does that all relate to the expectation should we still expect you to get investment grade over time?

<A - Robert L. Rosiello>: Let me start with the last piece and then Linda, our treasurer, is here. We will be opportunistic about what we pay and when we pay it and that will depend on the factors that you mentioned. What's the date of maturity? What are the interest rates? And so, we're not going to commit on where we're going to start. We will hold that option and remain opportunistic.

<A - Linda LaGorga>: Yes. Cindy, as far as the \$2.25 billion includes the revolver, no, it does not. We're still at an \$845 million revolver draw. We've been building cash on and we may or may not pay down some of that revolver by the end of the year, but that would be incremental.

<Q - Cindy Guan>: And that's an increase over time and then a potential bridge from 2015 to 2016.

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<A - **Linda LaGorga**>: I'll answer the – I will give some thoughts on investment grade and then I'll turn it back to others for the bridge. But, we – right now, the focus is pay down debt. And as Rob and Mike said, we're focused on quarter by quarter showing people the performance of this business that we all believe in so strongly. Over time and we all know being involved in the credit market, as we get figure, as leverage gets lower, I think over time, which I'm going to predict, that we will earn our way to higher credit ratings.

<A>: And then in terms of the bridge with respect to EBITDA from 2015 to 2016, one of the biggest drivers is the fact that, we will have the Salix business included for the full year. In addition, as you know, the early quarters with Salix in 2015 were impacted by the fact that we were bringing down inventories in the wholesale channel. And once that's normalized in 2016, you've got a lot of year-over-year growth that wouldn't be reflected in organic growth rate up until Q2 of next year, but that is a big driver, as well as the organic growth that's coming from the rest of the business.

<Q - **Cindy Guan**>: Okay. Thank you.

<Q - **Corey George Davis**>: Corey Davis from Canaccord. Thanks. I want to ask about Xifaxan. First, I think you said, by the end of the year it's going to be at \$1 billion run rate, so, one, could you clarify that? Number two, if it continues to grow at like 25%, 30%, is that the right way to think about what it's going to be in 2016?

Number three, I think you said that HE is still the fastest growing component of that. Do you expect that to continue to be the case? Number – what am I on, four, now? Is it fair to say that this is going to be your most profitable drug in 2016 or you're going to spend so much against the Gut Guy that it won't be that profitable? And then a different question, Tage, what's your favorite pipeline product?

<A - **J. Michael Pearson**>: All right. Let me start with Xifaxan. I've made some of these comments. This is obviously going to be \$1 billion-plus product, right? We're at a \$950 million run rate, I think, at this point. So, that was the comment. So it will be our first, we'll do it. So, I would hope we'd grow not just from \$950 million to \$1 billion, right? That would be pretty weak. So, we'll try to do better than that.

I did not say the HE was the fastest growing, I said it has the biggest opportunity in terms of IBS-D is growing like a weed. So, this is much fast. But HE, the potential in HE is huge. Everyone's caught up on the IBS-D, which is also big, it's big. But HE is huge. And I think what we're saying is, I'm not sure – I think I'm not sure – well, the way we look at the company and the asset, we're going to put as much effort against HE as IBS-D, because there's two ways we can grow it and that's the insights that I think Deb and Anne and others have had about this product, which we didn't realize probably.

We were probably more focused on IBS-D opportunity and it's great. Will it be our most profitable product? Probably yes, in terms absolute dollars for sure and at least – Deb likes advertising, but we're not going to allow her to spend \$1 billion in advertising. She does an awfully good job with the budget she has. Tage, your favorite product?

<A - **Tage Ramakrishna**>: Well, I think that's a hard one. It's like picking a favorite child and you always tell your child as a parent, you're my favorite, right? I think in terms of late stage, we have IDP-118, right? It's late Phase III. We accelerated this program very, very quickly, also because we had very good talks with the FDA in terms of what they felt about the efficacy of the drug, which allowed us to jumpstart and design a Phase III program.

So if you look at our Phase III programs on ClinicalTrials.gov, if you're good at deciphering trial design, you'll get to see that we're doing something that most other companies are not doing that have had to do and that was because of our discussions with the FDA, because where they felt that this could really be a benefit.

Second to that, we have some compounds that are just coming out of what we called our skunkworks program, which are very early on, but they've had very high hit rates in some diseases that you wouldn't think Valeant would be playing in, which could be real game changers. And so there's a number of compounds early on that I think I would pick, but Mike will always tell you, anytime we're in a discussion about a compound and should we advance this, what about this one, I always say, I'll offer to take any of them by myself, right? So I'll never be able to pick just one, but I feel really confident about all of them.

<A - **J. Michael Pearson**>: Did we get all your questions, Corey? Enough of them. Thank you.

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<Q - Irina R. Koffler>: Irina Koffler, Mizuho. I had three questions. So, are you going to return to your prior deal-making strategy in 2017 and are deals off the table in 2016? That's question number one. On number two, can you discuss the mechanism that you're going to use to distribute product to Walgreens and how it's cost efficient, whether or not maybe using wholesalers was more expensive, less expensive, how you're thinking about that?

And then, on Xifaxan, I just wanted to go back to HE. So, Salix previously indicated that it was about a 200,000 patient population. They were about a third penetrated in this thing. And then they used to refer to the HE opportunity as \$1 billion and the IBS-D as \$2 billion. So just wondering what you guys have seen differently where you think HE is a bigger opportunity now. Thanks.

<A - J. Michael Pearson>: So, Deb, why don't you take the third one? I'll start with first two. In terms of the distribution model, so we will take the same trucks that are currently driving to the distributors and drive them to Walgreens' DC and drop off the product. They'll then pick up the product from their DC and they'll cover that. So, we're not going to have Valeant trucks go to every little drug store every day. So, they'll take care of that, which they have done in the past. The level of fees that we would pay to current distributors compared to the economics of the deal with Walgreens is obviously favorable for both companies.

In terms of – well, first of all, in terms of deals, the fact we have no money allocated for deals doesn't mean it will stop us from doing deals. We just announced one yesterday. Didn't cost us any money, but we still had a deal. So, we will continue to create a [fix], just the budget is less this year. And we're committed to long-term moving towards investment grade in 2017. My guess is we'll continue to pay down debt. But we'll also probably have some cash freed up for some deals. So we've not sworn off deals forever. But we have a very strong commitment to paying down our debt, and so 2016 will be the year of debt paydown, but 2017 we'll continue. Deb?

<A - Deborah A. Jorn>: Okay. So on hepatic encephalopathy, the thing that is very good about that indication is that if a patient goes on therapy, they continue it for the long-term, because if they don't, and they have another overt episode, they actually lose brain function that doesn't come back. So, the medical need there is really large. We have recently obtained data that allows us to look at claims. So we know exactly where these patients are located using lactulose as a marker and we can get to those physicians.

And what we've found, as I indicated in my slide, was about 45% of those patients currently are receiving Xifaxan and lactulose. So, the other 55% really should be even as per medical experts and the guidelines that clearly show that in our Phase III studies 91% of the patients in those studies were already on lactulose. When Xifaxan was added, you had a 50% reduction in hospitalization. That's pretty dramatic. So we really believe that payers value that, but also, we believe it's the right thing to do that these patients should receive therapy.

The other thing that's different is it's a script for 60 tablets and it's chronic. If you look at the IDS-B market, we're very excited about that market too. It's a large market. But our product is very effective and it's a two-week regimen. You can repeat that regimen up to three times in a year per our label. But it's a 42-count versus the 60. So, there's a lot of reasons why we believe there is tremendous opportunity in both sides, but we don't think we've even half tapped out the opportunity on the hepatic encephalopathy side. So, hence, we think both could be very large.

<Q - Irina R. Koffler>: Thanks.

<Q - Alex Arfaei>: Thank you. Okay. Good morning, folks, Alex Arfaei with BMO Capital Markets. And thank you for doing this. Three questions, if I may. The first on the Walgreens deal, the 10% price reduction on the branded business, I think you're using average sales price as a base of that. How does that compare to the net price that you used to receive last year? So that's the first question.

Second one, since we have more of a volume-driven business, so is there any inventory build related to this agreement and how should we think of that? And the third one, Mike for you, obviously, tough few months, just want to gauge your commitment level here. Do you continue to support – do you continue to enjoy the full support of the board and how committed are you to basically turning this around at this time?

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<A - J. Michael Pearson>: Sure. So, in terms of the price increase, on that one, we will do in average wholesale price reduction and that will be available to all the industry, right? The product that we're putting is planned for Walgreens, but we're committing to the decrease. So, every payer will enjoy that. And in terms of what it does for our economics, in terms of how does the ten – I don't have all the math right now. It's obviously – it's not exactly the same number, but I don't have that number at this point in time.

In terms of inventories, what's really interesting about this is, right now, inventories that are in the channel, Walgreen's current inventory of Valeant products, whatever that number is, is at WACC plus or minus something. And WACC plus or minus something is much higher inventory level in terms of dollars than our cost of goods sold, right?

So the inventories that we're going to be putting through the Walgreens channel will be at our COGS plus transport expenses. So, the overall inventory in the channel will – if that's what you're talking about, will be greatly reduced or reduced in the United States. And that's why we're talking about how much is going to happen in fourth quarter, how much is going to happen in the first quarter. So it will bring down the accounts receivables and all that type of thing over time.

So it's a more efficient way right, of – a lot of pharmacies – these independents to take out credit lines to pay for inventories that are in the pharmacies. So there is a cost, right. There is a cost of carrying inventory. And what we've done is, fundamentally reduced the cost of carrying inventory in the U.S. healthcare system, which is another example of savings.

<A>: And obviously for us, it moves the revenue recognition to the point of sale as opposed to going through traditional wholesaler.

<A - J. Michael Pearson>: Yeah. In terms of my commitment, I'm very committed. I think that I was a little pissed once they trumpeted out the report because it's not our company and I'm very proud of everyone here. I'm very proud of the people who work at Valeant. I'm very proud of the business model that we've created, and it's going to be very successful. If the Board wants to fire me, they're welcome to fire me. But in terms of – until they do, we're going to – we're going to get through this thing.

<Q>: Thank you.

<A>: [indiscernible] we're not going to get in the habit of [indiscernible].

<Q>: It would be really special that...

<A - J. Michael Pearson>: I'm not going to answer that, but thanks.

<Q>: Okay.

<A - J. Michael Pearson>: [indiscernible].

<Q>: Hi, everyone.

<A>: [indiscernible]. The first one, I want to clarify if there is any confusion. When Mark talked about it [indiscernible], what he was talking about was why would a doctor take the time to switch a happy patient to new contact lens. There has to be a belief that it's really better for the patient, that's the reason they would do it because all doctors want to take care of their patients.

So in order to give them that extent of we gave as, Mark said here, the experience of wearing our lens for a day, in many a conference we have seen how much better this lens was. Then it's up to them to decide what to do. And I think that's – so I think the incentive was give them a reason and then what we've tried to do and Mark's done a great job of it, is giving them lots of reasons to, but in terms of switch now – switch growth. Where is Mark? What's the answer?

<A - Mark McKenna>: ...so everyone can hear, Mike's exactly right. This is about winning on the clinical benefits, making sure the doctor understands why they would want to move a patient from one part to the other. With respect to incentives, we want to remove the barrier that exists from moving a patient from one product to the other. That

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incentive goes to the patient. And we have rebates, every manufacturer has rebates out there and we incentivize the patient to switch the products, because there is not a barrier there. Does it make sense?

<Q>: Mark, the other question though was, how much of our growth is through new patients, right, people are gaining contacts for the first time versus switching someone who is wearing one of our competitors' products?

<A - **Mark McKenna**>: Yeah, great question. So, the answer is we're sourcing from both. We're over-indexing in both categories. We're actually getting more switchers as a percent that we are new, which is great. I think, only 10% of the pie is new patients, 15% of the pie are switchers and we are over indexing in both categories but where our focus is, is on the switchers.

<Q>: Great.

<Q>: And then let's have one other question in terms the Walgreens relationship. So, Mike, one of the things that you always spoke about, in terms of liking the specialty model, with a lot of the sort of reimbursement before, in terms of managing co-pay cards, as well as just managing fire-offs et cetera. I think, many people have a sense that that's not as tied sort of a touch service that you get at the mass chain. And so do you have assurances from Walgreens in terms of the sort of service levels and sort of the ability to navigate sort of the prior auths and step edits and so forth that often come with dermatology products.

<A - **Mark McKenna**>: I think, Walgreens is going to invest a lot in this capability. This is a long-term – I think, the vision for the company is, so I think it will – I think there's going to be a dedicated team worrying about our products. So, I think, it's going to be – I think, it won't be without its bumps and we have 8,000 locations, et cetera, et cetera. But we are both committed to as soon as there's a bump, let's fix that bump. I think the broad benefits of we'll far outweigh the little bumps that we'll have.

<Q>: Okay, great.

<Q - **Tim Chiang**>: Hi, Mike. It's Tim Chiang at BTIG. You talked about patient assistance, these drug assistance program seems to be more and more important to not just Valeant but a lot of major pharmaceutical companies in the industry. Do you think payers are going to react in a way such that, they may actually take up co-pays even higher as sort of a reaction to these drug assistance programs?

<A - **J. Michael Pearson**>: What you got as you mentioned is an industry-wide phenomenon, and you'd have to ask the payers.

<Q - **Tim Chiang**>: Okay. Let me rephrase the question then. And looking at this Walgreens agreement, are your patient assistance programs going to have to increase more relative to the programs that you had in place with the specialty pharmacy?

<A - **J. Michael Pearson**>: I don't think so. Again, I think we have full flexibility. What we really have is the ability to control the price that we're getting for the product, close to – right through intermediaries. So that's going to be very helpful to us. And I think – again, we'll see how worse, we're not going to lay out all our strategies at this meeting, but the bigger question I can't answer.

<Q - **Tim Chiang**>: And maybe one last question. How many drugs are actually – are you actually dropping the price on, on the branded side, with the Walgreens agreement?

<A - **J. Michael Pearson**>: It's over 30, but it's not a static list. We have flexibility. So we did this deal pretty quickly and that's I think the press release that's over 30. If it didn't it is over 30 and I'll go for now.

<Q - **Tim Chiang**>: Okay, great. Thanks, Mike.

<A - **J. Michael Pearson**>: One version of the press release is certainly better.

<Q - **Gregg Gilbert**>: Thanks. It's Gregg Gilbert from DB. First Rob, can you give us GAAP operating cash flow that you're expecting in the fourth quarter and for 2016? And my second question is for Targe on broda. Can you share with

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us what you guys see in the molecule that the predecessor owners did not? And I think you mentioned met with the agency and I'm sure that informed your view and your confidence, so can you share some more color around what makes you confident that broda has a play of the efficacy schemes that other teams are obviously scared, some of the prior owners?

<A - **Tage Ramakrishna**>: I'll answer the first one. If you read the two page appendix at the end of the presentation, we are not guiding to get cash flow for Q4 or for 2016. And it explains why we can't do that. We are making the changes to both labeling and we are making the changes, how we're going to talk and eliminate adjusted cash flow from operation and report GAAP cash flow.

<A - **J. Michael Pearson**>: Tage, we're not going to comment on what other companies saw or did see in this compound, because we have no way of knowing. But Tage, talking about why we liked it, you'll certainly target.

<A - **Tage Ramakrishna**>: Yeah. So, as Mike said, we can't comment on whether our company did not want to go forward with it. But what we saw was there is a clear benefit from the patients who treat both the IMAGINE-1 and IMAGINE-2, the clinical trials that Dr. Plott had discussed in an article. And the efficacy rates in those trials – in those patients were so astonishing, and Dr. Plott had mentioned, so the comparator was STELARA, so that's what was published and so it was highly significant versus the compound that currently is on the market.

The other aspect is, when we look at the safety of the molecule, we feel very confident with the adverse events that were reported. That being said, we always know it's going to be a review issue in terms of what the FDA is going to ultimately decide on the benefit risk of the compound. However, when we looked at the molecule, it wasn't just us, myself and Ari, we reached out to other dermatologists who worked on the trial, worked on the compound from the inception and we discussed with them the safety, the efficacy. And then, at the end of the day, we made a decision that we felt that these molecules' benefit are much higher than the risk and we wanted to go ahead and partner with AstraZeneca to push this through the approval process with the FDA.

So it's kind of where we netted out. And so, we saw the data. I encourage you if you have – the New England Journal article is a great article, it lays out everything in terms of the efficacy and what they saw. So we're really excited about the compound. That was the main reason.

<Q - **Gregg Gilbert**>: Thanks.

<A - **J. Michael Pearson**>: Thank you.

<Q - **Sumant S. Kulkarni**>: Sumant Kulkarni from Bank of America Merrill Lynch. Could you talk about some of the specific types of internal metrics that you have in place to measure progress on the Walgreen deals? Second, could we see the phenomenon of exclusions for drugs, given that you have a deal with Walgreens. Could someone else say, we're going to have a deal only with CVS for Kerydin versus Jublia, for example. And third, on the authorized generics, what types of difficult margins do you expect on that and how do you expect to set up that program, is it to maximize profitability or volume?

<A - **J. Michael Pearson**>: What's the third one?

<Q - **Sumant S. Kulkarni**>: What's the authorized generic program that you can have?

<A - **J. Michael Pearson**>: You mean the branded generic? I'm sure – well, I know Walgreens is going to continue to sell all of our competitor products. We did not ask them to not sell competitor products. And my guess is, you guys will continue to sell our products that's out there. You don't want to be a pharmacy and not have drugs available that people are going to come and they want, so this is not about exclusion, this is just about an access program.

In terms of internal metrics, we probably haven't thought a lot about it, we just signed this thing. And so, give us a few days, obviously we're going to track – we'll track volumes and we'll track patients and let – we didn't get a ton of sleep over the weekend, so they will start about tomorrow. And authorized – the branded generic – the branded generics is a volume-based strategy. There is no price – the price is set, right. The price is set, so it's all about volume.

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<Q - **Sumant S. Kulkarni**>: Thank you.

<Q>: Hi. Good morning. My name is Steven, I'm individual investor from Toronto. I took a vacation day today to attend this event.

<A - **J. Michael Pearson**>: Thank you, Steven.

<Q>: I actually bought a lot of Valeant shares during the recent financial crisis. It's just every time I bought more shares, the stock price kept going down. But that's okay I'm a long-term investor, so...

<A - **J. Michael Pearson**>: I've sold a lot of shares at a very low price too.

<Q>: So I have two questions. The first question is to Mike. You were mentioned as an outsider CEO, and a recent interview of the author of the book at Google Talk, the author said, as controversial as it is right now, Valeant does have lots of similar characteristics of the CEOs mentioned in the book. So have you actually read the book The Outsiders CEO? And if so what are some of the key takeaways you have from the book?

And then the second question is I understand that you are committed to pay down the debt. So is share repurchase out of the table? And do you feel share repurchase at the current price would create more shareholder value?

<A - **J. Michael Pearson**>: Well, the second question is easy. But personally, I would, I think buying our shares would be a great strategy. But we've made a commitment – when we raised money for Salix, we depend on our equity investors and our bondholders, the banks to make our strategy work long-term. And when we make a commitment, we keep that commitment. And when we raised money for Salix, I made a commitment, Howard made a commitment, we are going to not raise sort of more debt, we are going to pay this back. We're going to be 4 times by the end of 2015.

So in order to do that, we're going to use it. So it's an opportunity cost, I guess, on the equity side right now for us. Now if the share price a year from now is the same as it is now, then the answer would probably be different. And I actually haven't read all of The Outsiders. I have it. Someone gave it to me, but so I can't comment on that. Thank you. Thanks for taking that vacation day.

<Q - **Austin Nelson**>: Austin Nelson from Nomura Securities. To go back to Walgreens again, so just trying to understand the difference between Philidor from a reimbursement perspective for Valeant. With Philidor, when a script went to Philidor, the patient was guaranteed that it was sent and then you took the risk to adjudicate it afterwards. What we understand is it's the same here, if the patient gets it filled Walgreens, they'll be guaranteed to get it filled at whatever co-pay. So are you expecting now Walgreens to adjudicate the claims for you? And how it was in that guidance? Are you expecting that to impact the percentage of prescriptions you will actually get reimbursed versus will be given away for free?

<A - **J. Michael Pearson**>: Again, we've said that – the program was always on the first script. It was never – you can just send any script forever and get – that was never the program. It was the first script because the issue was the doctor writes a script of a product and you're either covered or not. So we took the risk on whether someone's covered or not. That doesn't mean they ever got to the second script for in the case of Jublia for free, that would be not a great business model. I don't think so. I don't think it's a great business model. So it's just the first one.

So the same will apply. We'll take the risk on the first one and allow access to our products. And yes, Walgreens will do – that's part of the service fee – just like they do it for every other script that comes into the store. So they will do that. And then if the patient's not covered, then we'll decide what our strategy is there. So, yes, we'll be taking the risk for eligible patients, right, it has to be eligible patients on the first script to ensure that they get their medications that day, they don't have to go back, get filled, they have a chance as far as with interacting pharmacists, blah, blah, blah.

It's up to the pharmacist too. We have no – there is no – pharmacists are also independent. They go to school and have great education, and we'll have no control what the pharmacists – the interaction of the pharmacists with the patient either. That's a privileged relationship. And so, we don't have plan to have any impact from that standpoint either.

<Q - **Austin Nelson**>: Thank you.

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<A - J. Michael Pearson>: Yeah.

<Q - Louise Chen>: Hi. I'm Louise Chen. I am from Guggenheim Capital. On the last call you gave some very helpful color on individual segments with respect to growth rates, so I was just hoping to ask for 2016 you could share some of your underlying assumptions for some of your various segments, especially the ones that may have more moving pieces like dermatology, neuro, other, et cetera? That'd be very helpful.

<A - J. Michael Pearson>: I agree it would be helpful. The trouble is we had to run a bunch of different scenarios this year, right. And I don't want we held to anyone saying, right, neuro is really moving; dermatology is really moving too. We can create lots of different scenarios, which is what we did; and then we have to use the judgment in terms of what we were going to do. I think we were – I hope we're conservative on that judgment. So with all the moving parts, so where have we exactly landed? I feel more comfortable aggregate. I feel very comfortable with the guidance. But each little pieces, I feel little less comfortable this year just given – so we put an extra dose of conservatism in. So we'll report the – you'll see them. You'll see the results. So I am not trying to be difficult. It's just, it's almost like you do a Monte Carlo in your head, right, so.

<Q - Louise Chen>: Maybe if you could try rank ordering like some of the segments, where you expect highest organic growth and some where we may expect the lowest organic growth?

<A - J. Michael Pearson>: Well, I think, Valeant is just going to have great organic growth. So I think that we saw our contact lenses, that's going to have great organic growth. What are some of our other – Latin America, we saw that today.

<A>: Asia?

<A - J. Michael Pearson>: Asia overall is going to do well. I think dentistry we're expecting, Dendreon we're expecting really healthy growth. We've not built any of the above launches into our budget. That was another thing. So if some of these products like get approved, that's going to stimulate growth. But until a product's approved, it's not approved. So we don't build it into our estimates.

So the big uncertainty is you're absolutely right, what's going to happen to neuro and other and what's going to happen to dermatology for the course of the whole year. It is very difficult to land a final number. So we've tended to take a very conservative approach and then try to beat it. And that's why we're not breaking it out at this point.

<Q - Louise Chen>: Thanks, guys. Appreciate it.

<Q - Morgan Williams>: Hi. I'm Morgan Williams with Barclays. I just have two questions. The first of which is whether you could give a little bit of the background on the deal with Walgreens and whether you were speaking with other retailers and appreciating that the deal with Walgreens is exclusive, whether you could do a similar deal with another retail chain?

And then the second question I have is, as you look to some of these pipeline assets which we're really excited about, like Broda and VESNEO and RELISTOR Oral. You've been vocal in the past that you haven't needed to rely as much on managed care contracting, especially with CMS. So given that some of these disease categories are heavily weighted towards the Medicare population, is this something that you are thinking of changing in the future or will you rely more on co-pay assistance programs? Just your thoughts on that.

<A - J. Michael Pearson>: So we've invested heavily over the last months in the managed care capabilities that we have; and Yang leads that and she has greater experience there. I think we're announcing someone else real soon, maybe we did.

<A>: We've already announced.

<A - J. Michael Pearson>: We already announced someone else really soon. And so, we're building that capability. We want it across everything and it probably wasn't an area that we were as deep as we needed to be. And so, we're investing in that area. I'm never going to talk about how we negotiate deals.

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<Q - Morgan Williams>: Okay, fair enough.

<A - J. Michael Pearson>: Okay.

<Q - Morgan Williams>: All right. Thank you.

<Q - Umer Raffat>: Hi, Mike. Umer from ISI. Three questions, if I may. First, are you seeing increased scrutiny from PBMs and have there been any recovery request from retrospective audit claims, one?

Secondly, for 2016 guidance, what's the assumption on formulary tier statuses across the portfolio? Is there an assumption that formulary tier status could decline perhaps? And third, and this has to do with IMS, the Salix TRx on the slide today was about 85,000, if I remember correctly. IMS data we see is generally around 40,000 range for Salix TRx, and I understand IMS caps rate is never perfect. So my question is is there a notable distribution channel that's not present – that's not captured by IMS?

<A - J. Michael Pearson>: Yeah, I think it was four, there is long-term care, there is hospital, there is...

<A>: Clinic.

<A - J. Michael Pearson>: What's the other?

<A>: Clinic. There is a whole non-retail sector, right, because we have a sales force that goes into the hospitals and that data isn't really captured by IMS. We can use other data sources and we get that data on a monthly basis, not a weekly basis, because it fluctuates quite a bit. So about 80% of the business is retail, and about another 20%, or well we're still thinking, it could be even higher than 20%, comes through hospitals, clinic, long-term care facilities. So it is – it is a little harder to get all the information if you're just looking at IMS.

<Q - Umer Raffat>: Got it.

<A - J. Michael Pearson>: And then because there is a differences in count, right? That script is not a script.

<Q - Umer Raffat>: Sure.

<A - J. Michael Pearson>: There is – well, a script is a script, but they are not the equal numbers. So when you see – actual revenue and not everything is priced the same either. So it's – it's just math. But...

<Q - Umer Raffat>: I'm bad at that.

<A - J. Michael Pearson>: We're good at math. So 2016, our managed care contracts, like when we put together our budget, our managed care contracts are done for 2016. We're in the process of negotiating for 2017, right, or we came close to it. So you always negotiate. So we have pretty good visibility and to – as part of our budget in terms of what our coverage is.

<Q - Umer Raffat>: And then conversations with PBMs in general?

<A - J. Michael Pearson>: Do I have them?

<Q - Umer Raffat>: No, as in – like, what the increase could have mean? Are you seeing any and what is that and what does that look like? Like, are they more audits happening? Is that something you guys are seeing?

<A - J. Michael Pearson>: I'm not aware of anything unusual.

<Q - Umer Raffat>: Okay, great. Thank you.

<Q - Todd Corsair>: Hi. Todd Corsair from Fosun Group. Just, again, I want to re-add to the question, if you could bridge us from the 2016 estimate of \$7 billion plus or minus down to the \$2.25 billion debt reduction figure, that – given that apparently constitutes most part of it's – potentially all of the free cash flow for 2016. Could you just kind of take us through line item-by-item? And then, because it seems like there maybe a \$1 billion or \$2 billion missing, at least that – where we were [indiscernible] on here. And then on the Walgreens...

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<A - J. Michael Pearson>: \$2 billion would be a lot.

<Q - Todd Corsair>: \$1 billion or \$2 billion. And then on Walgreens, it seems like they did also higher levered partners, the former secretary of HHS. And it sounds like there is – they're doing some additional diligence on this whole new and innovative structure. And I just wanted to understand what you guys know about that and is there any kind of contingency here or what does that involve exactly? Thank you.

<A - J. Michael Pearson>: No. I've tried to answer that second question before and I also have my colleagues think about re-answering the same question before too. So, no, no there is no contingency, this is a deal. We wouldn't have outlined that, if there was contingency we will tell you. Now, this was an attempt and maybe not a great attempt but an attempt.

So we actually believe this program is really going to save the system money in lots of different ways, they just talked about the inventory, right? These – somewhere or someone in that – somewhere in the industry is paying for the fact that pharmacies are borrowing money to the whole inventory at a high price, which that goes away.

So each little piece is an industry savings and it's complicated industry. So, we thought, we thought great. We announced this program, we were going to reduce our prices, we're going to – the pharmacists are no longer going to be calling this often to doctors at least for our products, right, so there'll be real savings. So we want to quantify those, us and Walgreens, and use that with our investors, use it with other audiences to demonstrate what we're doing. And it's always more useful to get an independent third-party to say, yep, this is absolutely right.

So we think it's a good way to demonstrate. Probably investors are the least important category for that, honestly. It's probably sort of other outside interested third-parties that we've got in the credibility of an independent group to say, yep, that's, yep, these guys really did take those price increase – decreases, these guys really did save this much money and then we could – and that might be interesting. So that's why – that's the role of that person.

<Q - Todd Corsair>: Okay, great. Thanks. And the other...

<A - Robert L. Rosiello>: There are two pieces we have not guided on, so [indiscernible] 701 is working capital.

<Q - Todd Corsair>: That's the one.

<A - Robert L. Rosiello>: Working capital to us as we think about it and it's in the context of a business that is shifting, right. We have a major business that is about to move into the Walgreens program and change the revenue recognition as well as the accounts receivable and the timing of those. So that, we believe, would make our working capital better over time.

The growth of the business, which traditionally has eaten up a lot of working capital, which we obviously hear about from each of you is an opposite, so you have to decide how is that going to net out.

And I think the third piece is, we don't anticipate much BD at all. If you look back in our last couple of quarters, when we buy a company that has a balance sheet, it doesn't have any constant – we have a huge one-time use of working capital. How that nets out, we're not certain yet. We have work to do on it, and we're not guiding on working capital.

The other piece that Tanya mentioned are contingent considerations, which we're not going to go through, but depending upon hitting milestones will effect what our cash flow is. And then the third piece is, we've built in a cushion. So that the 25 includes the 822 of mandatories that we have to make and represent a substantial portion in it, but we've left ourselves some room either for extraordinary small DD or a cushion.

<Q - Todd Corsair>: Again refresh my memory on taxes. Did you...

<A - Robert L. Rosiello>: No change.

<Q - Todd Corsair>: No change. Thank you very much.

<Q - Brendon Integlia>: Hi, I'm Brendon Integlia from Wells Fargo Securities. Mike, I know yesterday on the CNBC interview you mentioned that you are unaware of the allegations related to Philidor, but you're aware of the company's

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business practices. So I wanted to ask were you, the board, or anyone on the executive committee aware of any of the Philidor business practices detailed in the press prior to their appearance in the press. This includes using multiple pharmacies or the same prescription – or excuse me, for the same prescription, the shopping of multiple prices to the same insurer, were any of the other allegations that cause leading PBMs to stop doing business with Philidor. And before signing the deal with Philidor, you sent a team of board members to do due diligence from Philidor. Did they really not find any of this out while they were doing that due diligence?

<A - J. Michael Pearson>: So in terms of what I said yesterday is I was aware of the allegations, how could you not be or how could I not be. And what I've tried to say and maybe I didn't say it very well is I was unaware of any of this before the short reports made them. So hopefully that makes sense. We're not going to comment. I think we already said that we're not commenting – we have a special committee of the board. I'm not on it. And they are investigating and they will give an independent report and answer whatever questions they choose to answer. So I can't answer.

<Q - Brendon Integlia>: So one or two more, if you don't mind. So related to the compensation or the other retention and compensation. So in the 18 months, when the RSUs vest, would people that you saw might leave before just leave with more cash in their pocket and – or will you just have to sort of re-up the program at that point so you continue to retain those employees. Also you said you had about \$80 million going to 400 employees, so about \$200,000 per employee. So what does that relate to the average pay of those employees on annual basis?

<A - J. Michael Pearson>: Well, I think we've said roughly 600, not 400; and the number could be larger. So in terms of people, they have to be here to get it. It doesn't stop us from getting rid of people who aren't performing. So people can't just sit around and – so people will perform. And if we keep this company going at the rate that it's going now in terms of growth – and I think most of our investors will be very happy that we – that was the judgment we made, I made, the board made – they've been very happy to write that check to keep this what's a really good business going over the next 18 months.

And by definition, it won't cost that amount of money because not everyone will be there. It was also very important that the EMT got nothing. We're getting nothing in order to – nor should we. And so this is – but we have a lot of key people. We're decentralized and a lot of our employees, the side of it that a lot of people don't see, they come to work and we work hard and I think there's camaraderie, but it's not that pleasant to go home to your wife, your kids and your neighbors and say, oh, you work for them. So it's tough. There is an extra price. Most companies pay people a little bit more if they go to an emerging market or dangerous place, right? Our emerging market is United States. Next question.

<Q - Brendon Integlia>: One more real quick, if you don't mind, just please. So you mentioned that you're not going to provide GAAP cash flow for 2016. Can you just explain why that may not happen today or anytime in the future?

<A - J. Michael Pearson>: Well, actually I asked this question yesterday and I said company out there in our industry provides GAAP cash flow guidance or we don't know. So find a bunch of other companies that do it and then ask your question again.

<Q - Brendon Integlia>: Right. I'll follow up.

<A - J. Michael Pearson>: Okay, great.

<Q - Brendon Integlia>: Thank you.

<Q - Prakash Gowd>: Thank you. Prakash Gowd from CIBC. I had a few follow-up questions on Walgreens. First is, what flexibility do you have on taking the price increases on that set of products?

Second is, how would it apply, if at all, to new products launched in the future in dermatology and ophthalmology? And third, what would prompt you to rollout the programs to other therapeutic areas; under what circumstances would that really make sense? And then on the other side, for your 2016 guidance what assumptions are you making around price increases for the non-Walgreens business?

<A - J. Michael Pearson>: So all new products go into Walgreens in those areas. So ophthalmology products and dermatology products will go into the program. In terms of pricing, we control pricing because they are doing a service

Company Name: Valeant Pharmaceuticals
 Company Ticker: VRX CN
 Date: 2015-12-16
 Event Description: Investor Day

Market Cap: 43,989.75
 Current PX: 128.93
 YTD Change(\$): -10.07
 YTD Change(%): -7.245

Bloomberg Estimates - EPS
 Current Quarter: 2.599
 Current Year: 10.263
 Bloomberg Estimates - Sales
 Current Quarter: 2759.533
 Current Year: 10472.500

fee, but we've laid out what our pricing strategies have been. And I think Rob has reports that non-Salix products, we're going to live within any constraints of our Managed Care contracts. So we're not going to – you'll not see abnormally high price increases at all until the budget of next year.

<Q - **Prakash Gowd**>: Okay. And then you had mentioned rolling this program out to other therapeutic areas. What's the rationale for doing that?

<A - **J. Michael Pearson**>: Well, if it really works well for both partners, maybe we want to expand it, or maybe we want to partner with other people in some of the other categories, or maybe – let's see if it works here, right. And I was saying earlier, there's so many types of doctors. GI doctors are very – they're also – care very much about the brands, but there's other therapeutic areas where doctors are less sensitive too. So I think both Walgreens – we just maintain options.

<Q - **Prakash Gowd**>: Thank you.

<Q - **Annabel Samimy**>: Hi. Just a follow-up, Annabel Samimy of Stifel. So just getting some real-time questions here. So it has a bit – CVS is holding an Analyst Day today as well and they were just saying that 90% of Valeant products are excluded from the CVS/caremark formulary or are non-preferred. And CVS is essentially not particularly complementary of the Walgreens deal, arguing that it was a vehicle to avoid PBM function and keep cost high. Do you care to comment on any of that or?

<A - **J. Michael Pearson**>: No.

<Q - **Annabel Samimy**>: Okay.

J. Michael Pearson

All right. Well, again, thank you very much for giving up half of your day to come out here. And we appreciate your support; at least those of you who do support us. So thank you.

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