


EARNINGS UPDATE

Valeant Pharmaceuticals International

Solid results; Increased Guidance

What's The Event

Valeant reported solid Q2 results that were ahead of consensus on all metrics. Organic growth was above expectations, margins were strong and cash flow was robust. The only near-term headwinds are F/X and "genericization" (Xenazine and Targretin), which are being more than offset by organic growth.

Implications

We have increased our F2015 and F2016 forecasts to account for the roll-out of the IBS-D indication and the recent Amoun acquisition. We see continued organic growth (primarily in U.S. dermatology and B+L) and believe the company is poised for additional acquisitions. In the near term, tuck-ins are probable, with another sizeable acquisition becoming more likely as Valeant pays down debt. Valeant remains SO-rated with a \$275 price target, up from \$250.

July 23, 2015

Healthcare - Canada
SECTOR OUTPERFORMER
MARKET WEIGHT

Stock Rating:

Sector Weighting:

Key Ratios and Statistics

12-18 mo. Price Target	\$275.00
VRX-NYSE (7/23/15)	\$250.14

Key Indices: S&P/TSX 60

52-week Range \$106.03-\$250.14

Shares Outstanding 344.4M

Float 330.5M Shrs

Avg. Daily Trading Vol. 2,275,037

Market Capitalization \$86,148.2M

Dividend/Div Yield Nil / Nil

Fiscal Year Ends December

Book Value \$21.05 per Shr

2016 ROE (E) 33.0%

Net Debt \$17,752.4M

Common Equity \$7,249.9M

EBITDA (\$mln)	2013	2014	2015	2016
Current	\$2952.4A	\$3981.3A	\$5503.4E	\$7494.5E
Prior			\$5156.6E	\$7371.8E
Estimates (Dec. 31)	2013	2014	2015	2016
EPS (Cash)-Curr	\$6.24A	\$8.34A	\$11.66E	\$16.69E
EPS (Cash)-Prior			\$11.06E	\$16.09E
Valuation (Dec. 31)				
EV/EBITDA-Curr	35.2x	26.1x	18.9x	13.9x
EV/EBITDA-Prior			20.1x	14.1x
P/EPS (Cash)-Curr	40.1x	30.0x	21.5x	15.0x
P/EPS (Cash)-Prior			22.6x	15.5x

Company Description

Valeant is a leading specialty pharmaceutical provider. The company focuses on products with limited patent risk such as generics, over-the-counter, topicals and devices.

www.valeant.com/

All figures in US dollars, unless otherwise stated.

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See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Valeant Pharmaceuticals

VRX-NYSE 7/23/15 250.14
 12- To 18- Month Price Target: \$275.00
 Healthcare - Canada
 Sector Weighting: Market Weight

Sector Outperformer

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All figures in USD millions, except per share data.

Key Statistics

Share Price (US\$)	250.14	Net Cash (Debt)	(17,752.4)
Shares Outstanding	344.4	Enterprise Value	103,900.6
Market Capitalization	86,148.2		

Key Multiples

	F2014A	F2015E	F2016E
Valeant			
P/E	30.0x	21.5x	15.0x
EV/EBITDA	26.1x	18.9x	13.9x
Peers (Average)			
P/E	21.5x	18.1x	15.1x
EV/EBITDA	15.9x	15.2x	12.4x

Profitability

	F2014A	F2015E	F2016E
EBITDA Margin	48.2%	50.3%	53.3%
Net Margin	11.1%	5.3%	24.1%
Cash per Share	\$0.96	\$8.48	\$19.65
Net Debt/EBITDA	3.75	4.11	2.37

Income Statement

	F2014A	F2015E	F2016E
Sales	8,263.5	10,938.3	14,068.0
Growth (y/y)	43.2%	32.4%	28.6%
Operating Expenses	2,272	3,064	3,728
Adjusted EBITDA	3,981	5,503	7,495
Amortization	1,685	2,163	2,342
Interest & Other	947	1,442	1,257
EBT	1,093	675	3,574
Income Tax	180	97	179
Net Income	912	578	3,396
Adj. Net Income	2,850	4,090	5,925
Cash EPS	\$8.34	\$11.66	\$16.69

Free Cash Flow

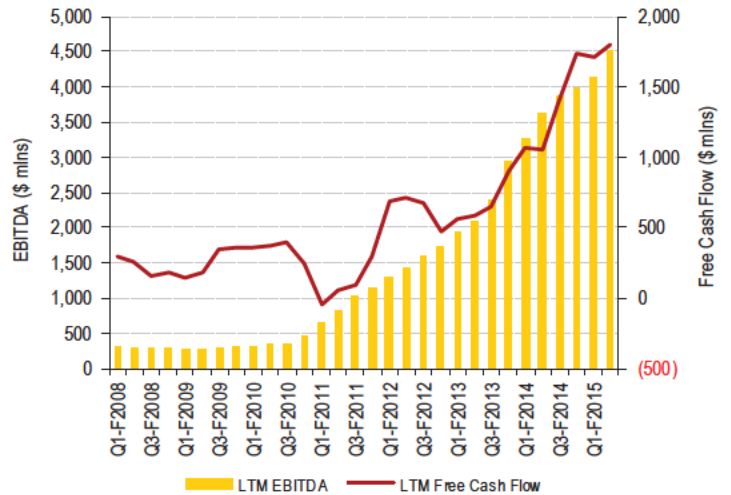
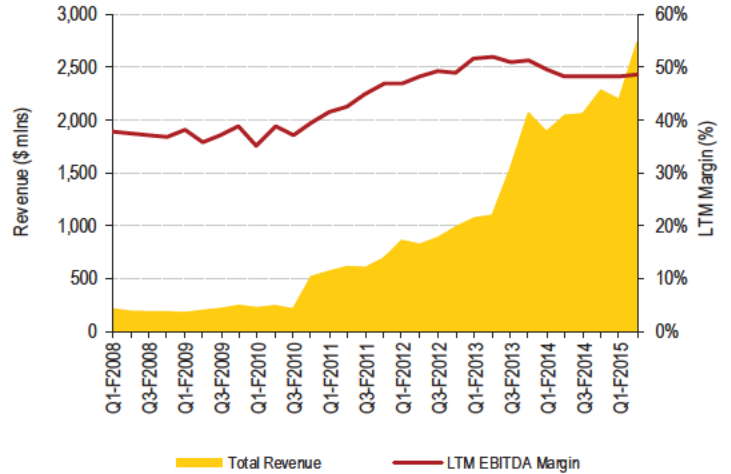
	F2014A	F2015E	F2016E
Cash Flow From Operations	2,103	2,425	5,085
Capital Expenditures	(367)	(330)	(220)
Free Cash Flow	1,736	2,095	4,865
Free Cash Flow Per Share	\$5.18	\$6.12	\$14.13
Free Cash Flow Yield	2%	2%	6%

Balance Sheet

	F2014A	F2015E	F2016E
Cash & ST Investments	323	2,903	6,768
Goodwill & Intangibles	20,602	18,960	16,618
Total Assets	26,353	38,977	42,299
Debt	15,255	25,521	24,521
Total Liabilities	20,919	31,950	31,876
Shareholder's Equity	5,435	7,027	10,423

Company Profile

Valeant Pharmaceuticals is a diverse, decentralized specialty pharmaceutical company engaged in the formulation, clinical testing, registration, manufacture and commercialization of pharmaceutical products. The company has a diverse product portfolio, with a focus on branded pharmaceuticals, branded generics and over-the-counter products in key areas such as dermatology, neurology, infectious diseases, ophthalmology, oncology and consumer products.



Source: Company reports and CIBC World Markets Inc.

Q2 Results

Valeant (VRX-SO) reported strong Q2/15 results that showed good organic growth (19%), solid adjusted gross margins (up 500 bps Y/Y) and strong cash flow.

Organic growth continues to come in well above expectations: this is the fourth consecutive quarter organic growth came in above 15% (we had been forecasting 12%). The outperformance was driven by the U.S. business, including contact lenses (BioTrue and Ultra), dermatology (Jublia/Luzu), ophthalmology Rx (Lotemax/Prolensa), neuro/generics and dental. With Valeant adding additional production lines for the contact lenses business and recently introducing a larger (8mL) Jublia package, we expect organic growth to continue in the near term, offsetting headwinds from the genericization of Xenazine and Targretin (expected in August and July, respectively).

IBS-D FDA approval drove increased guidance: As expected, Valeant increased its F2015 revenue and cash EPS guidance (by 4% and 5% at the midpoint, respectively) to reflect expected uptake of the IBS-D indication post FDA approval in May. At this point, the indication is in soft launch and we expect a full customer launch in September post approval of Valeant's marketing plan for the drug. We believe peak sales for the indication are in the \$1 billion range.

Amoun acquisition strengthens presence the Middle East: The Amoun acquisition (announced last week) adds ~\$225 mln in revenue, doubling Valeant's business in the Middle East and North Africa. We see the Middle East as attractive given limited patent risk, predominantly cash pay markets and strong growth (GDP and population). Amoun also brings manufacturing facilities and we believe that Valeant may be able to consolidate some operations in the region.

Expect tuck-ins to continue: With net leverage of 5.5x, we believe that Valeant will focus on tuck-ins as it pays down its debt (target of 4.0x by the end of 2016). We view tuck-ins as accretive uses of cash, with little competition for most deals (leading to lower multiples) and Valeant's added scale allowing it to significantly reduce costs. For example, Dendreon, which Valeant bought out of bankruptcy proceedings in February, achieved a gross margin of 64% and an operating margin of 40% in Q2/15.

Our F2015 and F2016 forecasts have risen, primarily due to the roll-out of the IBS-D indication and the recent Amoun acquisition (expected to close in Q4/15). We expect the IBS-D indication to help with Salix's inventory levels and expect average wholesaler inventory to be below 1.5 months by the end of this year (with gross margins approaching 80%).

Exhibit 1. Financial Summary

	Revenues (\$mln.)	EBITDA (\$mln.)	Adjusted EPS
2014A	8,263	3,981	8.34
2015E			
CIBC est. - new	10,938	5,503	11.66
CIBC est. - prior	10,524	5,157	11.06
Consensus	10,494	5,454	11.15
2016E			
CIBC est. - new	14,068	7,495	16.69
CIBC est. - prior	13,844	7,372	16.09
Consensus	12,697	7,259	15.52

Source: Company reports and CIBC World Markets Inc.

Price Target Calculation

We calculate Valeant's price target of \$275 based on a 15x EV/2016E EBITDA multiple and the forward-looking capital structure. The 15x multiple is slightly higher than Valeant's historical two-point premium to peers (currently trading at ~12.5x) given increased growth opportunities. The valuation is supported by our discounted cash flow (DCF) calculation, which uses a 9.20% weighted-average cost of capital (WACC), a 20% tax rate post 2016, and a terminal growth rate of 1.5%.

Key Risks To Price Target

- **Ability To Scale:** Valeant has grown significantly over the past few years. While the company has done a solid job managing growth to date, we believe a key risk is the company's ability to manage and support its rapid growth, and the challenges and difficulties associated with managing a larger, more complex business represent key risks to Valeant.
- **Ability To Acquire:** We see Valeant's ability to continue finding and completing suitably priced acquisitions as a key issue. As the company grows, it will have to make more and/or larger acquisitions to maintain its pace of growth. If the company is unable to identify suitable acquisition partners, the timelines for the execution of the company's acquisition strategy could be extended.
- **Patent Cliff:** The company faces generic competition on a number of its drugs. We expect generic competition on Valeant's products to be a key risk to price target.

Our EBITDA (\$mln) estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$571.6A	\$569.5A	\$756.8A	\$1054.5A	\$2952.4A
2014 Current	\$890.0A	\$933.1A	\$1005.4A	\$1152.8A	\$3981.3A
2015 Prior	\$1026.6A	\$1099.5E	\$1438.5E	\$1592.0E	\$5156.6E
2015 Current	\$1026.6A	\$1320.7A	\$1407.9E	\$1748.3E	\$5503.4E
2016 Prior	--	--	--	--	\$7371.8E
2016 Current	--	--	--	--	\$7494.5E

Our CASHEPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2013 Current	\$1.30A	\$1.34A	\$1.43A	\$2.15A	\$6.24A
2014 Current	\$1.76A	\$1.91A	\$2.11A	\$2.58A	\$8.34A
2015 Prior	\$2.36A	\$2.47E	\$2.90E	\$3.32E	\$11.06E
2015 Current	\$2.36A	\$2.56A	\$2.91E	\$3.82E	\$11.66E
2016 Prior	--	--	--	--	\$16.09E
2016 Current	--	--	--	--	\$16.69E

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