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EDITED TRANSCRIPT

VRX.TO - Q4 2015 Valeant Pharmaceuticals International Inc Earnings Call Unaudited

EVENT DATE/TIME: MARCH 15, 2016 / 12:00PM GMT

OVERVIEW:

VRX reported 4Q15 preliminary unaudited financial results. 4Q15 total revenue was $2.8b and GAAP loss per share was $0.98. Expects full-year 2016 revenues to be $11.0-11.2b and adjusted EPS to be $9.50-10.50. Expects 1Q16 revenues to be $2.3-2.4b and adjusted EPS to be $1.30-1.55.

ACRUX DDS PTY LTD. et al.
EXHIBIT 1576
IPR Petition for
U.S. Patent No. 7,214,506

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Linda LaGorga *Valeant Pharmaceuticals International Incorporated - Treasurer*

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PRESENTATION

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Operator

Good morning. My name is Heidi and I will be your conference operator today. At this time, I would like to welcome everyone to the Valeant fourth quarter 2015 unaudited financial results conference call.

(Operator Instructions)

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

Laurie Little - *Valeant Pharmaceuticals International Incorporated - Head of IR*

Thanks Heidi. And good morning everyone and welcome to Valeant's investor conference call. Participating on today's call are Mike Pearson, Chief Executive Officer; Rob Rosiello, Chief Financial Officer; Dr. Ari Kellen, Company Group Chairman; Anne Whitaker, Company Group Chairman; and Linda LaGorga, our Treasurer. In addition to a live webcast, a copy of today's slide presentation can be found on our website, under the Investor Relations section.

Before we begin, our presentation today contains forward-looking information. We would ask that you take a moment to read the forward-looking statement legend at the beginning of our presentation, as it contains important information.

In addition, this presentation contains non-GAAP financial measures. Non-GAAP financial reconciliations can be found in the press release issued earlier today and posted on our website.

Finally, the financial guidance in this presentation is effective only as of today. It is our policy to affirm -- to update or affirm guidance only through broadly disseminated public disclosure and with that, I will turn the call over to Mike.

Mike Pearson - *Valeant Pharmaceuticals International Incorporated - CEO*

Good morning, everyone. And thank you, Lori. Thanks for joining us. Today, we would like to cover the following topics. First, we will discuss our preliminary unaudited fourth-quarter 2015 results. Second, we are going to take you through our new tax presentation. Third, we're going to provide revised Q1 2016 financial guidance.

Fourth, I'd like to take a few minutes to provide my perspective on the current state of the business since I've been back a couple weeks, including a revised 2016 guidance and other key business updates. Fifth, Linda LaGorga, our Treasurer, will provide a liquidity and cash flow update.

And finally, I'm going to address some questions that we've gotten ahead of the call. And then we will open it up to Q&A. We've added a number of slides in the Appendix around assumptions and our top 30 products which we will not be going through but are -- will be made available to you.

As we've previously disclosed, there is an ongoing review of our 2014 financials and as such, we're not able to provide year-over-year comparisons today. Financial metrics that are impacted by this include the organic growth, business unit growth, and price volume detail. What we can provide today are preliminary unaudited 2015 fourth-quarter results.

With this, let me turn the call over to our CFO, Rob Rosiello, to cover Q1 and -- Q4 and Q1.

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Rob Rosiello - *Valeant Pharmaceuticals International Incorporated - CFO*

On Page 5, for the quarter, our total revenue was $2.8 billion versus our guidance of $2.7 billion to $2.8 billion. GAAP EPS was a loss of $0.98. Adjusted non-GAAP EPS was $2.50, which falls below the guidance range of $2.55 to $2.65 we provided in December. The shortfall was caused by unexpected reductions in higher margin product sales, driven in part by channel destocking and negative reaction to our agreement with Walgreens.

Cash flow from operations was $562 million. Adjusted cash flow from operations came in at $838 million, above our expected target of greater than $600 million. As a reminder, we have listed adjusted cash flow from operations on this slide but as we reported previously, we will no longer provide this metric going forward.

On the next slide, I would like to discuss changes in Valeant's tax reporting for 2016. Historically, Valeant has reported our non-GAAP tax provision on Table 2a and 2b of the press tables that combined the tax effects of non-GAAP adjustments and the use of tax attributes and other timing issues.

This number, approximately 5%, matched the actual cash tax that Valeant paid each year. Going forward, we will no longer include the tax effects from the use of tax attributes and other timing issues, which will, in turn, raise our reported tax rate to between 10% and 15%. This new reporting metric has no change to either cash flow or actual taxes paid.

On the next page, we are also updating our previous guidance for 2015 Q1 from revenue of $2.8 billion to $3.1 billion to $2.3 billion to $2.4 billion. We expect adjusted EPS will now be $1.30 to $1.55 from $2.35 to $2.55, as compared to the guidance we provided in December.

With the new tax presentation shown on the far right, adjusted EPS will be $1.18 to $1.43 for the first quarter. While most of our businesses remain strong, there are a few areas that changed since December that will impact our first quarter. First, we are realizing a decrease of roughly approximately $0.80 per share coming from the underperformance in several businesses.

This includes slower-than-expected growth in GI, including additional product destocking. We are also realizing a slower-than-expected rebound in dermatology that includes additional product destocking and loss refills from the Philidor transition to Walgreens.

Finally, we are also seeing underperformance in several other US businesses, such as Ophthalmology Rx, Obagi, Solta and Women's Health as well as in Western Europe. We have also experienced headwinds from currency fluctuations, hence our guidance was first set.

We also expect that another $0.20 roughly comes from the fact that even as revenue was brought down, we took little expense reduction despite this lower revenue forecast. Let me turn it back to Mike.

Mike Pearson - *Valeant Pharmaceuticals International Incorporated - CEO*

Thanks, Rob. So as you all know, I've been back from my medical leave for about two weeks. I've had a chance to review what's happening in the businesses and there's a mixed combination of some good news and some bad news. I just want to take a few minutes to sort of give you my assessment and what we plan to do about it.

While our businesses continue to grow we are now forecasting a lower growth rate in certain business, such as dermatology, given the continued external pressure from managed-care, the pricing environment and our slower-than-expected start in 2016.

We continue to expect strong growth in GI, contact lenses, oral health, oncology, generics in certain emerging markets. This strong growth will be somewhat offset by some of our other businesses, including Western Europe, Ophthalmology Rx, Solta and Obagi. Many of our business units have lowered their revenue forecasts for the year from when they first put them together in the Fall.

We have launched our Branded Access Program with Walgreens and this is a piece of the good news in mid-January with our dermatology portfolio, following the mid-February with Ophthalmology Rx and Addyi. Negotiations are underway to add networks of independent pharmacies.

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The program itself is off to a terrific start. Within two months of launch in dermatology, approximately 30% of our dermatology scripts are flowing through Walgreens. This is approximately 2 times the volume flowing through Walgreens from when we started. More importantly, well over 90% of our doctors who were using Philidor are now using Walgreens and many new doctors are also using this channel.

Walgreen's senior management, whom we met with last week, is equally excited about the program and we continue to fine-tune it to better serve our physicians and patients and improve the economics. Our brand for generic program is on track to launch sometime this summer.

Finally, another piece of good news, we are continuing to focus on improving patient access as well as improving our relationships with our channel partners. We have strengthened our managed-care organization with several key hires and we have been in active discussions with the payers to ensure continued patient coverage and access. I will address this point in more detail in a minute.

During the past two weeks, we have already taken steps to restructure a number of our underperformance of our smaller businesses and we are taking steps to launch a broad-based cost reduction program. These actions will be partially offset by increased investment in key functions, such as financial reporting, public and government relations, and our managed-care organization. We are also currently exploring divestitures of non-core assets which will enhance our liquidity.

Returning to market access. Maintaining US market access is critical for our entire portfolio and is critical to our success. To achieve this goal, we are investing more in rebates and building our organization's managed-care capability. The increases in rebates are due to more competitive pressure in response to our store price increases for our late life cycle products.

Our US market access team, led by Sandy Loreaux, who joined us in January of this year, continues to have productive dialogue and negotiations concerning access for our entire portfolio with national health plans, PBMs and regional plans. These negotiations include our Part D and commercial bids for 2017, response to ad hoc therapeutic area reviews by payers, and requests for price inflation protection agreements.

Through these negotiations, beginning late last Fall this year, we have been able to maintain good coverage of commercialized for our key brands and franchises including dermatology, GI and ophthalmology franchise. We are working hard as a team, including the senior management team sitting here in this room today, to continue to improve our relationships with PBMs and health plans as well as access for our current portfolio and importantly, future launch products.

We have made a great deal of progress and feel confident that we will improve our access in 2016 and 2017 and are laying the strong foundation for access to our expected new product launches. We are committed to engaging with these important customers more broadly across our organizations, building back trust through our actions and strengthening our capability to collaborate with them on initiatives involving our products.

Turning to our revised guidance. With the first quarter now updated, our new full year 2016 guidance as compared to what we previously reported, is expected to be $11 billion to $11.2 billion in revenue and adjusted EPS of $9.50 to $10.50. With our change to a different tax presentation, we expect to report adjusted EPS of $8.50 to $9.50.

As we are moving away from adjusted cash flow from operations, we will now report an expected adjusted EBITDA number of $5.6 billion to $5.8 billion for 2016. As we look at the budget we prepared in December, several factors have changed our outlook for 2016.

First, as Rob covered, the key one underperformance is expected to reduce adjusted EPS by $1 due to the higher-than-expected inventory reductions that transition from Philidor to Walgreens and the cancellation of almost all price increases. In addition, there has been negative impact from FX.

Next, we are taking a more conservative approach to our revenue assumptions and we are assuming lower growth rates for most of our franchises and geographies, including a slower rebound in dermatology, more modest growth in GI and underperformance in Women's Health, Commonwealth and Western Europe based on current expectations from economic factors and the current managed-care environment in the US.

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