THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

## VRX.TO - Q1 2016 Valeant Pharmaceuticals International Inc Earnings Call

EVENT DATE/TIME: JUNE 07, 2016 / 12:00PM GMT

**OVERVIEW:**

Co. reported 1Q16 total revenues of $2.4b and GAAP loss per share of $1.08. Expects full-year 2016 revenues to be $9.9-10.1b and adjusted non-GAAP EPS to be $6.60-7.00.

ACRUX DDS PTY LTD. et al.
EXHIBIT 1582
IPR Petition for
U.S. Patent No. 7,214,506

## CORPORATE PARTICIPANTS

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

**Joe Papa** *Valeant Pharmaceuticals International Inc - CEO*

**Rob Rosiello** *Valeant Pharmaceuticals International Inc - CFO*

**Linda LaGorga** *Valeant Pharmaceuticals International Inc - Treasurer*

**Tage Ramakrishna** *Valeant Pharmaceuticals International Inc - Chief Medical Officer*

**Anne Whitaker** *Valeant Pharmaceuticals International Inc - Company Group Chairman*

**Ari Kellen** *Valeant Pharmaceuticals International Inc - Company Group Chairman*

**Jeremy Lipshy** *Valeant Pharmaceuticals International Inc - Director of Tax Planning*

## CONFERENCE CALL PARTICIPANTS

**Louise Chen** *Guggenheim Securities LLC - Analyst*

**Tim Chiang** *BTIG - Analyst*

**Gregg Gilbert** *Deutsche Bank - Analyst*

**Wendy Lin** *JPMorgan - Analyst*

**Annabel Samimy** *Stifel Nicolaus - Analyst*

**Andrew Finkelstein** *Susquehanna Financial Group / SIG - Analyst*

**Umer Raffat** *Evercore ISI - Analyst*

**David Risinger** *Morgan Stanley - Analyst*

**David Amsellem** *Piper Jaffray & Company - Analyst*

**Cindy Guan** *Goldman Sachs - Analyst*

**David Maris** *Wells Fargo Securities - Analyst*

**Irina Koffler** *Mizuho Securities USA - Analyst*

**Morgan Williams** *Barclays Capital - Analyst*

**Doug Miehm** *RBC Capital Markets - Analyst*

**Alan Ridgeway** *Scotiabank - Analyst*

**David Common** *JPMorgan - Analyst*

## PRESENTATION

**Operator**

Good morning. My name is Jonathan and I will be your conference operator today. At this time, I would like to welcome everyone to the Valeant first-quarter 2016 results conference call.

(Operator Instructions)

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

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

Thanks, Jonathan, and good morning, everyone, and welcome to Valeant's investor conference call where we will be discussing our first-quarter 2016 financial results. Participating on today's call are Joe Papa, Chief Executive Officer; Rob Rosiello, Chief Financial Officer; Dr. Tage Ramakrishna, Chief Medical Officer; Dr. Ari Kellen, Company Group Chairman; Anne Whitaker, Company Group Chairman; and Linda LaGorga, our Treasurer. In addition to the 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've asked 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. For more information about the non-GAAP financial measures, please refer to slide 1. Non-GAAP reconciliations can also 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 update our firm guidance only through broadly disseminated public disclosure. With that, I will turn the call over to Joe.

**Joe Papa** - *Valeant Pharmaceuticals International Inc - CEO*

Thank you, Laurie, and good morning, everyone, and thank you for joining us. Today we'd like to cover the following topics: First, I'd like to share some thoughts following my first month at Valeant then we'll cover the results of the first quarter. Next, I'll walk you through our plans for stabilizing Valeant in 2016, including updating our 2016 guidance. Then we will address the areas of improvement, as well as areas of opportunity. And finally I'd like to tell you why I'm confident in Valeant's future.

In addition to today's prepared remarks we have several slides at the end of the deck in the appendix that we will not cover in today's presentation. Beyond the prepared agenda on slide 3, what I want to do today is really simple. I want to answer four questions: Why did I join Valeant? What is the current situation I found, both the good and the bad? What is our position related to our debt, our liquidity, and the regulatory filings? And why I believe Valeant will be successful in the future.

Now, let me comment first on that question about debt, liquidity and regulatory filings. We'll have more to say about this later but let me spend a few minutes now. Based on our guidance, we have a solid position with our liquidity. And I expect to be in compliance with the debt covenants throughout 2016 and beyond.

Also, we are now planning to file our quarterly information in a timely fashion for the regulatory SEC filings. Time will be our friend at Valeant as we work to improve the Valeant business and, importantly, to pay down debt.

Now, let me start about Valeant and what I found as I was doing my due diligence and joining the Company. I believe that Valeant has a diverse collection of leading healthcare franchises and brands such as Bausch & Lomb, CeraVe and Salix.

As I did my due diligence I discovered Valeant had a very broad geographic global footprint. I believe that our commitment to bring innovative products to the market through an exciting new product pipeline continues to be under-valued and misunderstood and I hope to change that perception.

Finally, in my 30-plus years in the pharma business in both branded, generic and OTC parts of the business, I knew many of the Valeant employees before I joined. And now I know even more. In my first 30 days, I've also had the pleasure of meeting many of the talented and dedicated employees that work at Valeant.

Globally, we have 22,000 Valeant employees that drive to work every day to focus on improving people's lives. I'm delighted to join the team that focuses on improving people's lives on this mission.

Like those of you on the phone today, I've also read many of the articles on Valeant. Some have not been favorable. I know it's been a difficult nine months for the team, but I also know we have dedicated leaders who know what is right and necessary to turn this Company around. We'll re-engage our workforce, we'll rebuild our relationships with providers, payers and regain the trust of our debt holders and shareholders.

And during the 30 days that I've been with Valeant, I've done just that, met with employees at all levels of the Company, sales leadership, key opinion leaders, many of our key trade partners, prescribers, managed care, GPO. And I've even had a chance to have a couple trips to meet with Congress. In summary for today, my hope is I can capture some of the excitement that I see in Valeant as I walk through today's first quarter but also some of the challenges and the opportunities in front of us.

Now, turning to slide 4. We have the Q1 2016 summary, the first-quarter results. Our total revenue was $2.4 billion versus our guidance of $2.3 billion to $2.4 billion. GAAP EPS was a loss of $1.08.

Adjusted non-GAAP EPS was $1.27 which falls within the guidance range. GAAP cash flow from operations was $558 million and adjusted EBITDA non-GAAP was just over $1 billion.

Now, let me turn the call over to our CFO, Rob, to discuss the quarter in greater detail. Rob?

---

**Rob Rosiello** - *Valeant Pharmaceuticals International Inc - CFO*

Beginning on slide 5 is a financial summary of our GAAP results. As Joe stated, we had a net loss of $1.08 per share for the quarter while GAAP cash flow from operations was $558 million.

COGS was 27% in the quarter with SG&A at 34% and R&D investment was just over $100 million, a record for Valeant. I want to point out that SG&A included $37 million of incremental cost related to Valeant's former CEO of which $25.3 million was for share-based compensation. However, since the performance threshold was not met, no value or shares were ultimately received by the former CEO. SG&A also included $29 million of legal and professional fees in connection with various investigations and related activities.

Turning to slide 6 and following our GAAP presentation, I'd also like to provide a non-GAAP summary. We reported adjusted non-GAAP EPS of $1.27 for the first quarter and you can see the historical adjusted non-GAAP EPS numbers for the past five quarters all under our new tax presentation.

Compared to Q1 2015, revenue increased just over $200 million or 9%. The impact of 2015 acquisitions provided $572 million of growth in the quarter. This came from Salix, Marathon, Dendreon and Amoun. This growth was offset by the negative revenue impact of FX of just over $50 million and divestitures of approximately $20 million.

The base business in Q1 declined by $289 million, driven by dermatology including the genericization of Targretin and the transition to Walgreens, the continued decline in our neuro business and declines in our ophthalmology Rx business. COGS increased 3 percentage points, primarily driven by lower derm revenues and the unfavorable impact of gross margins from FX in emerging markets. SG&A increased from 26% to 31%, driven by revenue declines described above as well as an increase in advertising and promotion, for example, DTC advertising, and employee retention of $20 million.

On slide 7, as you know, Valeant currently reports under two segments, developed and emerging markets. Revenues in the developed market were $1.9 billion, an increase of 11% year over year, while operating income declined 8%. While the increase was largely due to acquisitions completed in 2015, we experienced slower uptake in the dermatology recovery than expected. Revenue for US dermatology, and I'm including Obagi and Solta, was $229 million as compared to $399 million in the prior year.

Following the launch of the Walgreens program in January, we saw volume flattening and ASPs declining post launch. Overall volume challenges were exacerbated by the loss of refills following the shut down at the end of January of our previous specialty pharmacy relationship, as well as the negative external narrative and some internal disruptions which Joe will cover in more detail later in the presentation.

Revenues for the US GI business were $343 million for the quarter, with gross margins at 85%. Revenues for Xifaxan, the largest Salix product, were $207 million for the quarter which corresponded to a retail TRx increase of 32% over the prior year.

Other established brands also showed growth in the quarter and we're pleased the channel inventories for the Salix business have been reduced to 1.5 months and we are now selling to demand. Other areas of note in this segment included continued growth in our US contact lens with Ultra, which was up 58% year over year, aided by a national TV campaign and the launch of Ultra for presbyopia.

Our US consumer division was awarded the supplier of the year by Walmart, an achievement not easy to attain, while also launching several new products, surveys, ointment and preservation eras MV. Overall vision care was up 9% versus market growth of 1%.

Several units achieved strong organic growth, including Provenge, which grew 6% over the prior year and our generics portfolio which grew 14% year over year. There was strong growth in France and the UK, particularly in sales of B&L surgical. We also saw positive momentum from Jublia in Canada which currently enjoys roughly a 60% share.

On slide 8, revenues for the emerging market were $442 million for the quarter. This increase in revenue was driven by the 2015 Amoun acquisition, offset by unfavorable foreign exchange of $44 million. The fall in gross margins was driven by FX in countries where the purchasing or manufacturing of goods are in a different currency than where products are sold.

Same store organic growth was 2% but would have been nearly 10% if not for the $30 million inventory draw-down in Russia and Poland. Several countries delivered strong organic growth such as Mexico at 8%, China at 19%, and India in double-digits. We did see inventory levels successfully decline in Russia and Poland to approximately 3.5 months from the 4 to 5 months seen throughout 2015.

With that, I will turn the call back over to Joe.

---

**Joe Papa** - *Valeant Pharmaceuticals International Inc - CEO*

Thank you, Rob. On slide number 9 what I'd like to do is try to quickly summarize Valeant's current state. We have leading dermatology brands and GI brands and a strong pipeline. We've got great global Bausch & Lomb platform.

We've got a durable, sustainable business model in both consumer, ophthalmic and branded generics and we have strong cash flow. But we have experienced some significant challenges in our dermatology business as we transition to our access program with Walgreens. We continue to strongly believe in the program and both Walgreens and Valeant are working diligently to correct the issues.

Our Salix business is currently running below original expectations but we continue to believe that there remains a sizable opportunity and significant unmet medical need in this area. Unfortunately, negative external attention continues to adversely impact the business and our reputation with patients, physicians and all of you, our shareholders, as well as our distracted organization.

On slide 10, to further emphasize how the business is performing, the following chart illustrates that nearly all of our businesses are performing at our expectation, with the exception of the US dermatology and the Salix business.

On slide 11 we are confident we have a plan to go forward. We have to be realistic as to the impact all this has had on our operations and our financial expectations for the year.

Our new full-year 2016 guidance as compared to what we previously reported is $9.9 billion to $10.1 billion and adjusted non-GAAP EPS of $6.60 to $7. We expect an adjusted EBITDA number of $4.8 billion to $4.95 billion for 2016. Assumptions surrounding this guidance can be found in the appendix of the presentation posted on the website.

Now, I'll turn the call back to Rob.

# Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

## Real-Time Litigation Alerts

Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

## Advanced Docket Research

With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

## Analytics At Your Fingertips

Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

## API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

**LAW FIRMS**

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

**FINANCIAL INSTITUTIONS**

Litigation and bankruptcy checks for companies and debtors.

**E-DISCOVERY AND LEGAL VENDORS**

Sync your system to PACER to automate legal marketing.

WHAT WILL YOU BUILD? | sales@docketalarm.com | 1-866-77-FASTCASE