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EDITED TRANSCRIPT

VRX.TO - Q2 2015 Valeant Pharmaceuticals International Inc Earnings Call

EVENT DATE/TIME: JULY 23, 2015 / 12:00PM GMT

OVERVIEW:

VRX reported 2Q15 total revenues of \$2.7b and cash EPS of \$2.56. Expects 2015 revenues to be \$10.7-11.1b and cash EPS to be \$11.50-11.80.

ACRUX DDS PTY LTD. et al.
EXHIBIT 1660
IPR Petition for
U.S. Patent No. 7,214,506



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PRESENTATION

Operator

Good morning. My name is Angela, and I will be your conference operator. At this time, I would like to welcome, everyone, to the Valeant Pharmaceuticals' second-quarter 2015 financial results conference call.

(Operator Instructions)

Thank you. I would now like to turn the conference to Ms Lori Little, Head of Investor Relations. Please go ahead.

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

Thanks, Angela. Good morning, everyone. Welcome to Valeant's investor conference call, where we will be discussing our second-quarter 2015 financial results. Participating on today's call are: J Michael Pearson, Chairman and Chief Executive Officer; Rob Rosiello, Chief Financial Officer; Dr

Ari Kellen, Company Group Chairman; and Anne Whitaker, Company Group Chairman. 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. For more information about these non-GAAP financial measures, please refer to slide 2. Non-GAAP 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 update or affirm guidance only through broadly disseminated public disclosure. With that, I will turn the call over to Mike.

J Michael Pearson - *Valeant Pharmaceuticals International Inc - Chairman & CEO*

Thank you, Laurie. Good morning, everyone. Thank you for joining us.

We are pleased to report exceptional results across all financial and operational metrics for our second quarter. Driven by a strong sales growth in profitability across our regions and businesses and once again demonstrating the strength of our diversified and decentralized business model.

Before we begin discussing the details of our performance, I wanted to provide the highlights of the quarter. We have now delivered four consecutive quarters of more than 15% same-store organic growth. Strong performance throughout our businesses resulted in both our top and bottom line exceeding the Q2 guidance that we provided on our last call. These results were driven by the continued outperformance of our US businesses and strong results around the world including Asia, Australia, Canada, Mexico, and the Middle East and North Africa.

I am also pleased to report that Salix is off to a fast start. The productivity of Salix's R&D portfolio is demonstrated by the approval of Xifaxan for IBS-D in May and the NDA filing for Relistor Oral in June; two significant milestones for our GI business. We remain focused on reducing Salix's wholesaler inventory and are on plan.

Specifically, we have reduced inventory levels for Salix products to approximately 3 to 3.5 months as compared to 4 to 5 months at the April 1 close. Finally, we have already achieved \$500 million in run-rate synergies and fully expect to achieve \$530 million by the end of the year.

Third, Dendreon continues to exceed our expectations for both revenue and profitability. We achieved: \$74 million in revenues through the second quarter, an increase of 18% versus the previous quarter; and gross margins of approximately 64%, an improvement of 15%. And operating margins of approximately 40% to 45%, which we expect to continue to improve through the remainder of the year. This is a huge turnaround for a Company that was unprofitable just last year.

On the business development front, we have remained quite active with eight tuck-in deals already signed and/or closed so far this year. Later in the presentation, we will provide an annual update on M&A performance since 2008.

Based on our strong base business performance and the approval of Xifaxan for IBS-D, we are raising 2015 cash EPS guidance to \$11.50 to \$11.80. Our revenue guidance, we're raising to \$10.7 billion to \$11.1 billion for the year. We continue to expect total company same-store sales organic growth to exceed 10% for the remainder of the year, despite the genericization of Targretin in July and the expected genericization of Xenazine in August.

For the quarter, our total revenue was \$2.7 billion, an increase of 34% over the prior year, largely driven by the exceptionally strong growth in many of our US businesses, which offset negative headwinds from foreign exchange. Adjusting for the negative impact of FX of \$173 million, revenue grew 42% over Q2 2014. Cash EPS was \$2.56, an increase of 34% over the prior year, which includes the negative impact of \$0.13 from the strengthening US dollar. Adjusted for FX, cash EPS grew 41% over Q2 2014.

As mentioned in our press release, Salix had a negative impact of \$0.04 on our cash EPS this quarter; therefore, our cash EPS would have been \$2.60 for the quarter without Salix. Rob will take you through the math later in the presentation.

Turning to organic growth, our overall same-store total company organic growth was 19% for the quarter. The exceptional growth of our US businesses driven by the strength of dermatology, contact lenses, dental and Obagi was complimented by many of our emerging markets including China, Middle East/North Africa, Russia and South Korea. As we are now halfway through the year, our same-store sales organic growth was 17% for the first six months.

Our overall pro forma total company organic growth was primarily impacted by Salix, as we continued to reduce inventory in the wholesaler channels. Salix's revenues declined by approximately \$16 million in Q2 2015 as compared to Q2 2014. Our pro forma total company organic growth excluding Salix was 20%. B+ L continues to demonstrate strong organic growth led by Rx pharmaceuticals in the United States, our US contact lens business and our emerging markets.

Q2 revenues increased to \$836 million from Q1 revenues of \$745 million. We continue to expect B+ L organic growth to be approximately 10% for the full year. As we approach our two-year anniversary of the B+ L acquisition, we have fully integrated the business and manage it as an integrated iHealth portfolio; therefore, this will be the last quarter that we break out the US B+ L organic growth by sub category.

Turning to our Top 20 products. Our Top 20 products represented 40% of total second-quarter revenue, with the Top 10 products contributing approximately 28% of revenue. Our Top 20 products delivered organic same-store growth of 32% for the quarter.

Excluding new product acquisitions, roughly half of our growth came from volume and half came from price. Our largest product, Xifaxan, represented approximately 5% of Q2 revenues, despite revenues that were muted due to excess inventory in the channel.

Jublia is now our second largest product with annual run-rates sales of approximately \$450 million. Due to the generic launch of Targretin in July and the generic launch of Xenazine expected in August, we believe both products will fall out of our Top 20 products in Q3. I would also like to note that one of our new products Glumetza loses its patent protection in February 2016 and will fall out of the list in 2016.

Our US dermatology business had another excellent quarter with our launch brands leading the way. Both launch and core brands contributed to the dermatology revenue growth of 55% year-on-year. Jublia scripts grew 37% in Q2 versus Q1, which points to an increase of 55% on a 4-millimeter equivalent basis. Our DTC campaign featuring John McEnroe is having a positive impact on the product and continues to expand prescribing volume, particularly with the primary care physician base.

Onexton has demonstrated rapid TRx uptake since its January launch and recently reached 8,000 scripts per week. The fully-integrated DCT campaign with TV, print and digital is accelerating growth. The current annualized run-rate for Onexton is approximately \$70 million.

Luzu scripts have reached a new record high with volume up 55% relative to Q1. Luzu continues to grow with our new DTC campaign driving awareness. The current annualized run-rate for Luzu is approximately \$26 million. Lastly, our script trends for our base dermatology business, including Solodyn, Ziana, Atralin, Elidel and Zyclara are all demonstrating strong double-digit growth rates.

Our US eye health business continued its strong growth trend and delivered 10% growth over the prior year. Contact lens grew 19% organically over the prior year. Biotrue ONEday continues to grow 4 times faster than its category. Based on the growth of the Biotrue franchise over the last five quarters, six additional Biotrue lines are currently planned.

B+ L's ULTRA contact lens continues to be well received by eye care professionals. Our first commercial manufacturing line for ULTRA is operational. We continue to sell to capacity. We recently approved lines five and six for ULTRA to support the long-term global demand.

Our prescription drug ophthalmology business continues to see strong -- extremely strong growth across promoted brands fueled by the Lotemax Franchise and Prolensa. We are also quite pleased to announce that we have filed Vesneo with the FDA.

Organic growth for surgical was 1% for the quarter. Adjusted for the continued shift from the sale -- from sales to leasing models of femtosecond lasers, organic growth would have been 3%. We expect to see improving organic growth for surgical for the remainder of the year, driven by market share gains across our product lines including our IOL's and our surgical equipment.

The strong performance of neuro and other, as well as the generics portfolio was driven by promoted brands including Aplenzin, Cuprimine and Syprine. In our consumer business, CeraVe, Preservision and BioTrue MultiPurpose Solution all demonstrated strong double-digit growth demand.

Finally, our dental business continued its track record of strong double-digit growth. In March, we expanded our dental product portfolio through the acquisition of Neutrasal, a treatment for general dry mouth and oral mucositis.

When we acquired Neutrasal, its annual revenues were approximately \$8 million. After four months, the run-rate revenue for Neutrasal is over \$16 million. This is another example of our ability to quickly have an impact on our acquisitions.

Now, turning to the rest of the world. In our emerging markets, organic growth for our business in Asia was 10% versus the prior year. We continued to see strong growth in a number of countries, including China at 15% and South Korea at 23%.

In Latin America, we delivered 7% organic growth, with Mexico at 12%, offsetting more modest growth in Brazil and Argentina. Central and Eastern Europe, the Middle East/North Africa delivered strong double-digit growth of 18%. Russia returned a positive organic growth this quarter.

Overall growth in other Central and Eastern European countries were slightly negative this quarter as they were primarily impacted by Ukraine and Greece. For the rest of the world developed markets, the underlying business remained strong with our Australian, Canadian and Western European businesses performing well, with 6%, 7% and 5% organic growth respectively.

Now let me turn to the Salix acquisition. We completed our acquisition of Salix on April 1. We have already achieved several significant R&D milestones with the approval of Xifaxan for IBS-D, the submission of Relistor Oral NDA and the approval of the Relistor injection in Europe.

Obviously, the big event was the IBS-D approval where we saw immediate growth in script uptake of Xifaxan post-approval. Our soft launch commenced right after approval with our sales force undergoing training the first week of June. At this time, we continue to promote the package insert as we are still awaiting regulatory approval for our marketing campaign, including our first DTC advertisement.

Based on our quick start, revenues and EBITDA are both significantly ahead of the deal model and the integration is nearly completed. In addition to the realignment of the sales force, which we discussed in our last earnings call, we revamped the sales-force compensation model to be in line with our existing performance-based compensation structure versus Salix's structure which force-ranked the sales team. We believe these adjustments will maximize the effectiveness of our sales team going forward.

Finally as I mentioned earlier, we are pleased to report that our wholesale inventory reduction program is on plan. We are currently at approximately 3 to 3.5 months as compared to 4 to 5 months at the April 1 close. We still expect inventory levels to be reduced to 1.5 months or less by year-end. Rob will take you through the details later in the call.

As slide 15 shows, we have experienced a significant increase in script trends from 15% to 33% year-over-year growth for Xifaxan since the approval for IBS-D on May 27. Following the close of the acquisition, we held a pipeline review session with the Salix R&D team, the Valeant R&D team and several external experts. The purpose of the session was to provide an in-depth discussion of the pipeline products and determine which ones would move forward. I am pleased to report that a vast majority of the programs are still ongoing and are detailed on slide 16.

As expected, we continue to be very active in the business to all MENA activities. We have closed or signed eight deals so far this year, with the most significant one being Amoun, an acquisition we announced last week. This acquisition adds approximately \$225 million to our existing Middle East/North Africa sales, which is one of the fastest growing emerging markets in the world. Including Amoun, our Middle East business will be approximately \$500 million in 2016.

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