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Valeant, Amid Drug-Pricing Storm, Takes on Investor

Amid an intensifying debate over drug-price increases that has brought its business practices to the forefront, Valeant Pharmaceuticals International Inc. fired back at critics in the investment community, publicly revealing the benefits it gets from some price hikes for the first time.

Democrats in the U.S. House of Representatives are pushing to subpoena the company for documents relating to drug-price increases, causing Valeant shares to tumble. Morgan Stanley chimed in last week, saying the company is more susceptible to political scrutiny than other drugmakers because it increases list prices more opportunistically. The criticism has added volume to a small chorus of bearish investment researchers dating back months, though most major Wall Street analysts still rate the stock a buy.

Valeant's increases on list prices for drugs haven't been as large as those of Turing Pharmaceuticals AG, whose hike on a medication called Daraprim to \$750 a pill from \$13.50 provoked the ire of Democratic presidential candidate Hillary Clinton. Still, her pledge on Sept. 21 to reform the industry has sent the Nasdaq Biotechnology Index tumbling 12 percent, while Valeant has fallen 27 percent.

House Democrats have highlighted Valeant's heart drugs Nitropress and Isuprel, whose list prices increased by 212 percent and 525 percent the day that Valeant acquired the rights to sell them. While the company discussed other drugs in a filing Tuesday, it didn't mention those two.

Bill Ackman, whose investment firm Pershing Square Capital Management is Valeant's third-largest investor, also leapt to the company's defense Monday. Drug companies put their profits into research and acquisitions, rewarding investors and producing more innovative products, he said during the Bloomberg Markets Most Influential Summit.

Drug pricing is "polling well I assume for Hillary Clinton, so therefore this is something that becomes a campaign issue," he said. "Valeant got dragged into the story. A very small part of Valeant's business is re-pricing drugs."

WAC Prices

In its filing, Valeant said details from reports by Citron Research, **Veritas Investment Research** and AZ Value Investing were inaccurate and that the company hasn't been as dependent on drug-price increases as the reports claimed.

One issue is the difference between a drug's listed price, also known as the wholesale acquisition cost or WAC, and the real price paid by insurers, the government and other group purchasing organizations, which get discounts that often aren't disclosed publicly. The investment researchers and government officials have focused on the list price increases.

Valeant said that while the WAC price for toenail anti-fungal solution Jublia has been raised by 20 percent since January 2015, the drugmaker has only seen a 2 percent increase in the average selling price. Acne medicine Solodyn went up 10 percent in WAC price but only 0.7 percent on a net basis, Valeant said.

Researchers Respond

The drugmaker didn't disclose net price increases for any of the many other drugs mentioned in the reports. It disputed an argument by Citron and **Veritas** that it would have missed analysts' estimates for quarterly earnings this year without the price increases, saying the hikes were already included in its forecasts.

Laurie Little, a Valeant spokeswoman, didn't immediately respond to a request for comment on why the drugmaker didn't disclose net price increases for Nitropress and Isuprel.

"I am not going to argue about a few accounting issues when the problems are so much deeper," short seller Andrew Left, who's executive editor of Citron Research, said in an e-mail. People who sell short seek a profit by borrowing shares, selling them and then repurchasing the securities later at a lower price and returning them to the holder.

"We fully stand behind our research," said **Dimitry Khmelnitsky**, an analyst at **Veritas**, in an e-mail. **Khmelnitsky** didn't respond to any specifics in Valeant's filing. An e-mail to AZ Value seeking comment did not receive an immediate response. The blog doesn't disclose its author's name.

Republicans on the House's Committee on Oversight and Government Reform haven't responded to the Democrats' request to subpoena Valeant for documents related to drug-price increases.