Valeant Pharmaceuticals International, Inc.

Investor Conference Call
October 26, 2015

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Forward-looking Statements

Forward-looking Statements

Certain statements made in this presentation may constitute forward-looking statements, including, but not limited to, statements regarding the expected future performance, including guidance with respect to revenue, Cash EPS, adjusted cash flow from operations and organic growth, the Company's relationship with Philidor RX Services, LLC ("Philidor"), including the Company's option and the exercise of contractual rights and its ability to continue to use the Philidor network, the continued ability of the Company to offer certain products, the results of the litigation with R&O Pharmacy, LLC, strategies with regard to the Company's distribution of product through the specialty pharmacy distribution channel, results of the ad hoc committee of the Board of Directors in its review of the publicly disclosed allegations regarding the Company's relationship with Philidor, future expenditures for R&D and brand support, our pursuit of debt paydown, share repurchases and other acquisitions and the impact of recent events on our business. Forward-looking statements may generally be identified by the use of the words "anticipates," "expects," "intends," "plans," "should," "could," "would," "may," "will," "believes," "estimates," "potential," "target," or "continue" and variations or similar expressions. These statements are based upon the current expectations and beliefs of management and are subject to certain risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, but are not limited to, risks and uncertainties discussed in the Company's most recent annual or quarterly report and detailed from time to time in Valeant's other filings with the Securities and Exchange Commission and the Canadian Securities Administrators, which factors are incorporated herein by reference. Readers are cautioned not to place undue reliance on any of these forward-looking statements. These forward-looking statements speak only as of the date hereof. Valeant undertakes no obligation to update any of these forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect actual outcomes.

Non-GAAP Information

To supplement the financial measures prepared in accordance with U.S. generally accepted accounting principles (GAAP), the Company uses non-GAAP financial measures that exclude certain items, such as amortization of inventory step-up, amortization of alliance product assets & property, plant and equipment step up, stock-based compensation step-up, contingent consideration fair value adjustments, restructuring, integration, acquisition-related and other costs, In-process research and development, impairments and other charges, ("IPR&D"), legal settlements outside the ordinary course of business, the impact of currency fluctuations, amortization including intangible asset impairments and other non-cash charges, amortization and write-down of deferred financing costs, debt discounts and ASC 470-20 (FSP APB 14-1) interest, loss on extinguishment of debt, (gain) loss on assets sold/held for sale/impairment, net, (gain) loss on investments, net, and adjusts tax expense to cash taxes. Management uses non-GAAP financial measures internally for strategic decision making, forecasting future results and evaluating current performance. By disclosing non-GAAP financial measures, management intends to provide investors with a meaningful, consistent comparison of the Company's core operating results and trends for the periods presented. Non-GAAP financial measures are not prepared in accordance with GAAP. Therefore, the information is not necessarily comparable to other companies and should be considered as a supplement to, not a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP.

Note 1: The guidance in this presentation is only effective as of the date given, October 26, 2015, and will not be updated or affirmed unless and until the Company publicly announces updated or affirmed guidance.

In attendance today

Board members

- Robert Ingram, Lead Independent Director
- Robert Hale, Board Member, Partner of ValueAct Capital
- Theo Melas-Kyriazi, Board Member, Member Audit and Risk Committee
- G. Mason Morfit, Board Member, President of ValueAct Capital
- Norma Provencio, Board Member, Chairman Audit and Risk Committee
- Howard Schiller, Board Member, former Chief Financial Officer
- Katharine Stevenson, Board Member, Member Audit and Risk Committee

Management

- J. Michael Pearson, Chairman and Chief Executive Officer
- Tanya Carro, Corporate Controller
- Seana Carson, Chief Compliance Officer
- Robert Chai-Onn, General Counsel
- Dr. Ari Kellen, Company Group Chairman
- Robert Rosiello, Chief Financial Officer

J. Michael Pearson

Robert Ingram

Opening Remarks

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Agenda

- **Philidor**
  1. Specialty pharmacies
  2. Valeant's history with Philidor
  3. Philidor's network and operations
  4. Accounting and disclosure for Philidor
  5. Valeant diligence, oversight, and control as it relates to Philidor
  6. R&O: The facts as we know them
  7. Philidor summary and next steps
- **Business update**

1. Specialty pharmacies – Dr. Ari Kellen

Our Dermatology Specialty Pharmacy Strategy

- We value our relationships with traditional wholesale and retail pharmacy channels, and continue to make our products available through those channels. We have an offering through specialty pharmacy for the smaller subset of physicians and patients who prefer this channel
- Use of specialty pharmacies in dermatology is common
- Our specialty pharmacy strategy originated from the Medicis Alternate Fulfillment Program
- The strategy is designed to improve patients' access to medications at an affordable price, and to help ensure doctors are able to prescribe the medications they believe are most appropriate for their patients
- Philidor provides reimbursement support services to comply with managed care formulary restrictions such as prior-authorizations and step-edits
- We have designed our programs to improve patient adherence to medications and contribute to improved patient outcomes

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Key Elements of the Philidor Program

- For Commercially insured patients, Philidor dispenses Valeant medications before adjudication of the reimbursement may be finalized. Patients get their medicines more quickly and Valeant takes the risk for non-reimbursement

- Affordable cash pay options exist for prescriptions which are not reimbursed by commercial insurance

- Co-pay subsidies and cash pay options are designed to be affordable and are not eligible for prescriptions reimbursed in whole or in part by government insurance

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Other Companies Focused on Dermatology Utilize Specialty Pharmacies

Company	Example Product	Example Specialty Pharmacies identified*
Allergan	Aczone, Tazorac	Choice Compounding Pharmacy IRMAT Pharmacy
Galderma (Nestle)	Epiduo	IRMAT Pharmacy
PharmaDerm (Novartis)	Kerydin	RxCrossroads Pharmacy (Part of Omnicare)

* Source: Company websites, promotional materials

Examples of Valeant products offered through Philidor*

			Commercially insured		
Product Name	**Strength**	**Size**	**1st Rx**	**Refill**	**Cash pay**
Acanya	1.2%/2.5%	50 g	$35	$40	$75
Atralin	0.05%	45 g	$35	$40	$125
Clindagel	1%	75 ml	$0	$40	$75
Jublia	10%	4 ml 8 ml	$0 $0	$0/$40 (1) $0/$40 (1)	$75 $125
Locoid Lotion	0.10%	59/118 ml	$35	$40	$75
Luzu	1%	60 g	$35	$40	$75
Noritate	1%	60 g	$0	$40	$75
Onexton Gel	1.2%/3.75%	50 g	$0	$0/$40 (1)	$75
Retin-A-Micro	0.08%	50 g	$35	$40	$75
Solodyn	55/65/80/105/115mg	30ct	$0	$40	$50

(1) $40 is for commercial uncovered refills
* Effective October 2015

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Channel economics

- In Q3 2015, Philidor represented 6.8% of total Valeant revenue
- In Q3 2015, Philidor represented ~7% of Valeant EBITA
- Prescriptions through Philidor are less profitable than traditional channels due to lower copay rates, lower cash pay rates and more cash pay scripts in Philidor than in retail and other channels

Specialty Pharmacy - Q&A (1/6)

Question: What % of your YTD net revenues flow through specialty pharmacies? What % of YTD net revenues is through Philidor?

Answer:

- *Specialty pharmacies account for 7.2% of Valeant net revenue YTD*
- *Philidor accounts for 5.9% of Valeant net revenue YTD*

Specialty Pharmacy - Q&A (2/6)

Question: What % of Jublia net revenues flowed through Philidor in 3Q 2015?

Answer:

- *44% of Jublia revenue flowed through Philidor in Q3 2015*

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Specialty Pharmacy - Q&A (3/6)

Question: How are specialty pharmacies compensated?

Answer:

- *Like retail pharmacies, specialty pharmacies are paid by health insurers and patients, and often also receive fees for performing certain additional services on behalf of manufacturers such as refill reminders, processing copay assistance, or data reporting*

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Specialty Pharmacy - Q&A (4/6)

Question: How do specialty pharmacies interact with the PBMs?

Answer:

- *Specialty pharmacies, like retail pharmacies, contract with PBMs to be included in their network. The ability for PBMs to restrict members is dependent on state law*
- *A number of states have "Any Willing Provider" laws, which ensure all pharmacies have access to PBM networks*
- *PBMs have audit rights with all of their network participants*

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Specialty Pharmacy - Q&A (5/6)

Question: How are specialty pharmacies regulated?

Answer:

- *Specialty pharmacies are licensed by state regulators and are subject to federal controlled substance regulations*

Specialty Pharmacy - Q&A (6/6)

Question: Can a manufacturer own a specialty pharmacy?

Answer:

- *Yes*

- *For example Abbvie currently owns Pharmacy Solutions, which distributes Humira, Lupron Depot, Lupaneta Pack to patients*[(1)]

(1) Source: www.abbvie.com

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2. Valeant's history with Philidor – Howard Schiller

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Philidor History – Pre Option

- Pilot program developed pre-acquisition by Philidor for Medicis
  – Original program covered Solodyn and Ziana in a limited number of states
  – Services agreement with Philidor signed January 2013

- After seeing evidence of success in late 2013 the parties agreed to expand the program
  – At the time Philidor was a small start-up
  – Valeant did not invest or lend any money to the Philidor scale-up

- Patients and doctors had strong positive feedback on the Philidor experience
  – Led to significant growth over calendar year 2014

Why an option to acquire Philidor? (1/2)

- In fall of 2014, Philidor was at an inflection point with their business. Philidor had experienced significant growth and success with Valeant in dermatology, and was now looking to expand into more therapeutic offerings with additional partners

- While we work with a number of specialty pharmacies, we believed that a strategic relationship with a specialty pharmacy would allow us to provide high service levels to physicians and affordable access to drugs for patients

- We were protective about our successful new platform. If Philidor rapidly expanded with additional partners, we might have lost the high service levels to patients and doctors that had driven success

- We wanted to maintain Access program exclusivity in our key therapeutic areas

Why an option to acquire Philidor? (2/2)

- Our primary interest was ensuring that Philidor remained focused on our business
- We considered the full spectrum from outright purchase to different exclusivity arrangements
- Ultimately determined the structured option acquisition with the oversight rights we negotiated provided security and the flexibility in the future to acquire a new growth platform

Why this option purchase is different from typical Valeant transactions

- Typical practice in Valeant integrations
  - Existing Valeant manager with operational responsibility for the business starting Day 1
  - Work to cut over all financial and IT systems ASAP post close
  - Employees are trained on Valeant policies and programs (e.g., compliance, HR)
- Philidor
  - We do not own or control Philidor
  - No “day 1”, Philidor remains on their systems and policies
  - Philidor employees do not report to Valeant, though we:
    - maintain regular communication
    - have a joint steering committee
    - have rights (and have utilized them) to approve key positions (e.g., in-house lawyer, chief compliance officer)
    - included Philidor in Valeant’s SOX 404 Internal Control Testing and Internal Audit program for 2015

Philidor option terms

- Upfront: ~$100M
- Valeant has the right to exercise its option for up to 10 years to acquire Philidor for $0
- Milestones: Up to $133M
  - $33M of milestones already paid

- Philidor is independent, with Valeant having contractual rights including:
  - Joint Steering Committee
  - Right to require hires for certain positions
  - Substantial information rights
  - Covenants respecting Philidor's compliance with all applicable laws

- Philidor is a separate limited liability legal entity
- We believe we do not have legal liability for Philidor

Indemnification from Philidor (1/2)

- Valeant received representations, warranties, and covenants as to business practices/performance from Philidor
  - Representations that Philidor:
    - Was not in violation of any applicable law
    - Had all material permits required by law necessary for the conduct of its business
  - Covenants that Philidor is operating their business
    - In compliance with applicable law
  - Philidor indemnification of Valeant:
    - Third party claims relating to the operation of Philidor's business and performance of its duties
    - Breach of representations, warranties, and covenants or for Philidor's negligence or willful misconduct

Indemnification from Philidor (2/2)

- **Under the option agreement, for breaches of fundamental representations and certain covenants (including compliance with applicable law), Philidor's equity holders' obligation to indemnify Valeant survives indefinitely and is capped at the amount of the up-front payment plus all milestones paid or achieved (i.e., today that would be at least $133M)**
  - Indemnification on other breaches of reps and covenants is capped at $25.4 million

- **For indemnification claims by Valeant, Valeant has right to set off such amounts against sales-based milestones owed to Philidor and/or seek directly from Philidor members**

Philidor History – Post Option

- December 2014 - acquired option to acquire Philidor
  - Rationale to acquire option for Philidor was to keep Philidor focused on Valeant's business and to ensure continued strong customer service
  - Gave Valeant a level of contractual influence to benefit our business, while providing an option on long term ownership
- Result:
  - High service levels and high customer satisfaction
  - Provided Valeant with another platform for growth

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Valeant's Management Rights

- Unless and until Valeant exercises the option to acquire Philidor, Philidor remains independent and Valeant has no rights to remove CEO or management
- Valeant has the right (but not the obligation) to appoint or cause Philidor to hire:
  - Advisor to the CEO
  - Head Compliance Officer
  - In-House lawyer
  - Head IT officer
  - Other employees as reasonably requested
- Joint steering committee

Valeant's history with Philidor – Q&A (1/4)

Question: Do Mike Pearson, other Valeant senior executives, or board members own a stake in Philidor?

Answer:

- *No, neither Valeant senior executives nor board members own a stake in Philidor*

Valeant's history with Philidor – Q&A (2/4)

Question: Has Valeant lent money to the owners of Philidor?

Answer:
No, Valeant has not lent any money to the owners of Philidor

Valeant's history with Philidor – Q&A (3/4)

Question: What would be the rationale for a Valeant entity to file the UCC-1 liens on Philidor's members' equity?

Answer:

- *The UCC-1 liens have nothing to do with any loan*
- *They are in place to secure our rights to the equity we would acquire if we exercised the option*

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Valeant's history with Philidor – Q&A (4/4)

Question: Who is KGA Fulfillment Services?

Answer:

- *KGA Fulfillment Services, a wholly-owned subsidiary of Valeant, filed the UCC-1 liens, and owns Valeant's option to acquire Philidor*

3. Philidor’s network and operations – Howard Schiller

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Philidor at a Glance

- **Pharmacy headquartered in Pennsylvania**
  - CEO Andrew Davenport
  - Locations in Hatboro and Horsham, Pennsylvania and Phoenix, Arizona
  - Licensed to dispense in 46 states + DC
  - Presently Philidor's network of pharmacies includes pharmacies located in California, Florida, New Jersey, South Carolina and Texas
    - Valeant has retained and discussed the Philidor structure with knowledgeable counsel
    - Valeant understands that the structure, including Philidor's use of an unaffiliated acquisition vehicle, meets legal requirements

Evolution of the Philidor model

Original strategy:
- Single hub in Pennsylvania
- Added state licenses and back-end capacity over time

Phase 2:
- Testing different expansion models: increased network by acquiring interests in additional Pharmacies and partnering with independent pharmacies

Future:
- Further expand network via partnering with existing pharmacies on a contract basis

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Philidor's network and operations - Q&A (1/12)

Question: How does Philidor distribute drugs in states, like California, where they are not licensed? Does Philidor contract with sub-contractors?

Answer:

- *We understand that Philidor holds non-resident licenses in 45 states, the District of Columbia and its resident license in Pennsylvania*
- *In the few states where it is not directly licensed, like California, Philidor does not dispense products to patients. Philidor has agreements with affiliated pharmacies that have California licenses, and those pharmacies have dispensed products to patients in California*

Philidor's network and operations - Q&A (2/12)

Question: Are competitor products, including generics, available through Philidor?

Answer:

- *Yes, but the bulk of Philidor's volume is related to Valeant products*

Philidor's network and operations - Q&A (3/12)

Question: How do you compensate Philidor?

Answer:

- *We pay Philidor a per prescription service fee as consideration for the various services provided by Philidor in the administration of our alternate fulfillment program. However this fee is eliminated in consolidation and we recognize all of their operating expenses in our consolidated financial statements*

Philidor’s network and operations - Q&A (4/12)

Question: Is the Isolani structure intended to avoid continued review issues in California?

Answer:

- *Valeant has consulted with experienced and knowledgeable regulatory counsel. We believe that the Isolani structure meets California’s legal requirements*

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Philidor’s network and operations - Q&A (5/12)

Question: Did Valeant have an ownership interest at the time that Philidor applied for its non-resident license in California?

Answer:

- *No, Valeant has never had an ownership interest in Philidor. Valeant acquired its option after Philidor had submitted its August 2013 application*

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Philidor’s network and operations - Q&A (6/12)

Question: Does Philidor auto-refill RXs? If so, when? What is the full process?

Answer:

- *We understand that Philidor patients are contacted by a customer service representative between 24 and 28 days after Philidor dispenses the initial fill on a particular prescription, to inquire whether the patient would like to have the prescription refilled (if there are refills written for the prescription). Patients who agree to refill their prescription and who are eligible for a $0 co-pay are offered auto-refill on all subsequent fills left on their prescription . Patients can opt-out from auto-refill at any time*

Philidor's network and operations - Q&A (7/12)

Question: Do other pharmacies have refill programs?

Answer:

- *Yes, other pharmacies, including national chains such as Walgreens have auto-refill programs*

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Philidor's network and operations - Q&A (8/12)

Question: Does Philidor have contracts with PBMs?

Answer:

- *Yes, Philidor, like other pharmacies, has contracts with PBMs to be included in their networks*

Philidor's network and operations - Q&A (9/12)

Question: Have PBMs and Managed Care Organizations audited Philidor?

Answer:

- *We understand that Philidor and its network pharmacies have complied with several hundred desk audits from almost the entire universe of payors, and have participated in more than two dozen live audits involving most major PBMs*

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Philidor's network and operations - Q&A (10/12)

Question: Why have a number of employees of Valeant recently become employees of Philidor?

Answer:

- *Philidor decided to hire a field force to assist in providing customer services and hired a number of former Valeant employees*

Philidor’s network and operations - Q&A (11/12)

Question: Do other specialty pharmacies have field forces?

Answer:

- *Yes, pharmacies other than Philidor have field forces to promote their services*

Philidor’s network and operations - Q&A (12/12)

Question: Why was Philidor’s California pharmacy application rejected?

Answer:

- *This is an issue that the ad hoc committee of the board plans to review*

4. Accounting and Disclosure for Philidor –

Robert Rosiello

Tanya Carro

Revenue Recognition Policies for Philidor

- Valeant consolidates financials with Philidor and the Philidor network, ensuring that revenue recognition and financial statement presentation is appropriate
- Third party revenue is <u>not</u> recognized when products are shipped to Philidor and its network (these shipments are recorded as intercompany sales, which are eliminated in Valeant's consolidation process)
- Instead, Valeant recognizes revenue only when products are <u>dispensed</u> to patients and records this at net realized price

Accounting for Philidor

Before Purchase Option Agreement [1]

- All sales to Philidor accounted for as Valeant does with any third party
- Sales recognized upon transfer of inventory to Philidor

After Purchase Option Agreement [1]

- Inventory held at Philidor remains on Valeant's consolidated balance sheet
- Revenues only recognized in Valeant's consolidated income statement when products dispensed to the patient

- Consolidating financials of Philidor delays revenue recognition relative to third party transactions
- **No way to "stuff the channel"** of consolidated VIEs, since all inventory remains on Valeant's consolidated balance sheet until dispensed to patients

(1) Executed December, 2014

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Product and Financial Flows for Philidor and the Philidor Network (1/2)

1. Philidor for itself or affiliates sends an order to Valeant
2. Valeant ships to Philidor for itself or affiliates in response to that order
3. Valeant records these shipments as intercompany sales, which are eliminated in consolidation, and bills Philidor for itself or affiliates at Wholesale Acquisition Cost (WAC), and records an intercompany receivable from Philidor for itself or affiliates
4. Philidor for itself or affiliates records receipt of inventory in the appropriate subledger (Philidor for itself or affiliates) and records an intercompany payable in the appropriate ledger
5. Philidor for itself or affiliates dispenses prescription to patients and records 3rd party revenue (which appears in Valeant's consolidated income statement at the net realized price)

Product and Financial Flows for Philidor and the Philidor Network (2/2)

6. Difference between WAC inventory value and amount of collections from patients/payors is recorded as an intercompany receivable from Valeant, which offsets the intercompany payable
7. Amounts collected from patients and payors are deposited into Philidor or affiliates' operating accounts
8. Intercompany payable is repaid bi-weekly to Valeant from Philidor or affiliates' operating accounts
9. Amounts outstanding due from payors are reflected in Philidor for or affiliates' accounts receivable and in Valeant's consolidated balance sheet
10. Unsold inventory at Philidor or affiliates is included in Valeant's consolidated balance sheet at standard cost

Policy on Consolidating VIEs

- Valeant evaluates the accounting treatment of Variable Interest Entities (VIEs) in accordance with ASC 810
- Philidor was considered a VIE prior to the Purchase Option Agreement, but since Valeant was not determined to be the primary beneficiary, consolidation was not appropriate
- A Purchase Option Agreement for Philidor was executed in December 2014:
  - Finance and Transactions Committee, Audit and Risk Committee and Full Board reviewed the transaction
  - The appropriate accounting treatment was determined by management and reviewed with the Audit and Risk Committee
- After the Purchase Option Agreement was executed, the VIE analysis was updated and Valeant was determined to be the primary beneficiary and consolidation became a requirement

Financial control approach to Philidor

- Philidor is included in Valeant's SOX 404 Internal Control Testing and Internal Audit program for 2015
  - This includes both Business Processes and IT General Controls testing
  - We co-source with a Big 4 Firm that conducts the testing for these programs
- Valeant reviews the financials of Philidor network pharmacies on a regular basis
  - Credit and collections team at Valeant, along with Philidor CFO monitors payment activity to ensure receipt of bi-weekly payments
  - Financial statements of Philidor network pharmacies are consolidated and reviewed monthly by Valeant, including review of accounts receivable and inventory balances as well as reconciliation of all intercompany balances

Materiality of Philidor for Disclosure Purposes

- Philidor is not considered material to Valeant's business for reporting purposes
  - At the time of the Purchase Option Agreement in December, 2014, Philidor YTD net sales were $111 million
  - The GAAP requirement for disclosing sales to large customers is 10% of revenue; revenue from the smallest customer disclosed in 2014 was $0.9 billion
  - Philidor is no longer a customer for accounting purposes (since its financials are consolidated) but if it were, it would still not require disclosure when applying the 10% threshold
- Valeant has a pre-established internal threshold for specifically disclosing transactions in business combination footnotes
  - The purchase of the option to acquire Philidor did not meet this threshold
  - Valeant reviews this threshold (at a minimum annually) with its audit committee and external auditors, and makes adjustments as appropriate. This review includes benchmarking disclosures of other pharmaceutical companies and companies that are similarly acquisitive
- Even if Valeant had acquired Philidor it would not have met the pre-established threshold

Disclosures of Philidor, Past and Future

- As Philidor was not considered material to Valeant for reporting purposes, it was not reported prior to October 2015
- Consolidation of VIEs was disclosed in Valeant's 2014 10-K in two places
  - Footnote 2 Significant Accounting Policies
  - Footnote 3 Business Combinations
- Philidor was not specifically mentioned as it has not been material to consolidated financial statements (1% or less of total assets, 7% or less of consolidated net revenues since Q4 2014)
- On our Q3 earnings call Valeant disclosed its relationship with Philidor given the October 3rd announced litigation with R&O and investor interest
  - No obligation to disclose this as amounts are not material
  - Materiality of the Philidor arrangement is evaluated quarterly as part of Valeant's disclosure checklist
- We will continue to share financial information on Philidor for the foreseeable future

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Accounting and Disclosure for Philidor - Q&A (1/4)

Question: Did you use an outside law firm to design the Philidor arrangement?

Answer:

- *Hogan Lovells advised us on structuring our distribution and services arrangement with Philidor along with supporting our due diligence on the company*

Accounting and Disclosure for Philidor - Q&A (2/4)

Question: How does Valeant account for other specialty pharmacies revenue?

Answer:

- *Pharmacies in the Philidor network, including R&O, are consolidated by Valeant and net revenue is booked when the product is sold to a patient*
- *Specialty pharmacies outside of the Philidor network are treated like the rest of our customers and revenue is recorded when they take ownership of the inventory*

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Accounting and Disclosure for Philidor - Q&A (3/4)

Question: Are there any other accounting standards that could have been applied to Philidor with regard to revenues and/or inventories?

Answer:

- *Based on the rights acquired by Valeant with the option purchase, and applying the criteria described in ASC 810, the only appropriate treatment from an accounting perspective was determined to be consolidation*

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Accounting and Disclosure for Philidor - Q&A (4/4)

Question: Are there any other consolidated specialty pharmacies or VIEs besides Philidor?

Answer:

- *Valeant consolidates two VIE's in addition to the Philidor network: (1) PT Kukah Usaha Maju (PT KUM), the 15% minority interest owner of a company we acquired in Indonesia, last year and (2) Al Balsam Al Shafi Gen Tr LLC (UAE Corp), a local shareholder of a company acquired in the UAE last year*

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5. Valeant diligence, oversight and control as it relates to Philidor – Seana Carson

Valeant diligence prior to entering into the option agreement

- All agreements since the outset have been reviewed or drafted by legal counsel
- Legal, compliance, regulatory, and business diligence was conducted in connection with the Purchase Option and Distribution Services Agreement with the assistance of external advisors. Included multiple site visits and Valeant negotiated representations, warranties, indemnities and ongoing covenants to protect Valeant
- Diligence covered legal, regulatory and compliance matters including but not limited to corporate structure, pharmacy licensing, federal healthcare program requirements, privacy, pharmacy practices and IT security
- Majority of the board, including the entire Audit and Risk Committee, went to tour the facility in person ahead of completing the transaction

Valeant's rights under the option agreement

- Philidor operates independently
- Valeant has rights to access Philidor's books, records and facilities
- Philidor must give Valeant prompt notice of any events that result in a material breach of its covenants or could reasonably expect to result in a breach of its representations and warranties
- Valeant has the right to appoint employees to Philidor including a head compliance officer and an in-house lawyer
- The option agreement provides for a joint steering committee, composed of members from Valeant and Philidor, the purposes of which include the exchange, assessment, and discussion of matters relating to compliance of Philidor, with applicable laws, materials contractual obligations and Philidor's internal policies and processes

Valeant's oversight since entering the option agreement

- We maintain regular contact between business and functional leads
- Per our right in the option agreement, following acquisition of the option, Philidor, with input from Valeant, hired both an in-house lawyer and a head of compliance, with relevant experience
- Philidor is included in Valeant's SOX 404 Internal Control Testing and Internal Audit program for 2015
- On October 2 a Big 4 Firm that we currently co-source with to test these programs was asked to scope out an internal audit of Philidor
  - The scope was intended to include:
    - Operational and Data Systems Assessment
    - Quality & Regulatory Assessment
    - Adjudication / Reimbursement Assessment
    - Contractual Assessment
    - Government Pricing
    - Prescription level testing and sampling
  - Because of the nature and volume of inquiries related to Philidor after the October 19 earnings call the audit has been delayed to revise scope accordingly
- Additionally we understand that Philidor and its network pharmacies have complied with several hundred desk audits from payors, and have participated in more than two dozen live audits involving major PBMs

Valeant diligence, oversight and control as it relates to Philidor - Q&A (1/4)

Question: Who does Philidor report to?

Answer:

- *Philidor is independent and therefore does not report to anyone at Valeant. There is a Joint Steering Committee and operational leads that regularly interact*

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Valeant diligence, oversight and control as it relates to Philidor - Q&A (2/4)

Question: Does Valeant provide financial benefits to doctors to route prescriptions to Philidor?

Answer:

- *No*

Valeant diligence, oversight and control as it relates to Philidor - Q&A (3/4)

Question: What safeguards are in place as protection so that Philidor does not apply Valeant's patient assistance program to Medicare or other federally funded programs?

Answer:

- *Valeant's patient assistance program limitations are publicly available and disclosed on its website. We understand In processing the Valeant co-payment coupons, Philidor has operational safeguards in place that are designed to protect against claims being inappropriately submitted to federal payors. These safeguards include training of its co-payment adjudicators, call center scripts, and the use of claims processing software designed to identify if a patient is a federal program beneficiary which then prevents further processing of the adjudication of such prescription*

Valeant diligence, oversight and control as it relates to Philidor - Q&A (4/4)

Question: Can you comment on today's Wall Street Journal article?

Answer:

- *This is an issue that the ad hoc committee of the board plans to review*

6. R&O: The facts as we know them –

Robert Chai-Onn

R&O's Relationship with Philidor

- Philidor has an option to acquire Isolani, LLC (Isolani) (not yet exercised)
- Isolani holds a 10% equity stake and the right to acquire the remaining 90% of equity of R&O (not yet acquired); total transaction value of $350,000
- R&O Pharmacy, LLC (R&O) is a licensed pharmacy in the State of California and formerly dispensed drugs manufactured by Valeant Pharmaceuticals North America (VPNA) and other manufacturers
- Under a management services agreement (MSA) with R&O, Isolani, provides management and administrative services to R&O
  - Under that contract, R&O compensates Isolani with all profits and losses realized by R&O
  - Contract terminates when Isolani acquires remaining 90%

Dispute With R&O (1/2)

- **This is a collection action**
- **History:**
  - Isolani on behalf of R&O, submitted product orders through Philidor to VPNA
  - VPNA made approximately 75 shipments to R&O between January and August 2015
  - From March 2015-July 2015, R&O made payments of $18.4 million directly to VPNA for VPNA products. (Last payment received 7/16)
  - In August 2015, VPNA learned R&O had stopped making regular bi-weekly payments to VPNA
  - VPNA then ceased shipping products to R&O
  - The value of the intercompany payable at that time was $69M measured at WAC
  - In August 2015, VPNA and Philidor discussed the issue of unpaid R&O invoices
    - Isolani indicated that R&O had refused to deposit patient and third-party payor checks into the appropriate operating account as required by the MSA
    - Valeant estimates R&O has received approximately $19.3M in payments based on R&O entries into the prescription processing system used by all members of the Philidor network which is reflected in Valeant's consolidated accounts receivable balance as of 9/30/2015
    - Valeant estimates that R&O also has ~$6M in VPNA inventory measured at WAC as of 9/30/2015

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Dispute With R&O (2/2)

- **History (continued):**
  - To ensure payment, VPNA sent a letter to R&O on September 4, 2015 demanding immediate payment. The amount referenced in the letter represents the intercompany payable balance of $69M
  - On September 8, 2015 R&O's counsel refused payment
  - On September 8, 2015 Isolani brought suit against R&O and R&O's pharmacist Russell Reitz to take possession of the checks delivered to R&O
  - On October 6, 2015, R&O sued VPNA, seeking a declaration that it does not owe any money to VPNA
- **Next steps:**
  - VPNA believes that R&O's lawsuit is without merit
  - VPNA will file its own counterclaim against R&O for all amounts received by R&O that have not been deposited in the operating account or otherwise remitted to VPNA

Revenue Recognition Policies in Effect for R&O

- Valeant consolidates the R&O financials, ensuring that revenue recognition is appropriate
- Revenue is <u>not</u> recognized when products are shipped to R&O
- Instead, Valeant recognizes revenue only <u>when</u> products are dispensed to patients and records this as revenue at the net realized price for each prescription dispensed

R&O: The facts as we know them - Q&A (1/11)

Question: What is the business rationale for the relationships between Philidor, Isolani and R&O?

Answer:

- *We understand that R&O is a pharmacy in California with non-resident licenses in 34 other states*
- *The relationship, through Isolani, provided Philidor with an additional network pharmacy that can serve patients in California and 34 other states*

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R&O: The facts as we know them - Q&A (2/11)

Question: Why did Valeant send a collection letter to R&O instead of Philidor?

Answer:

- *Because R&O failed to deposit checks into the appropriate account for payment to Valeant for the products Valeant had already supplied and R&O had dispensed*

R&O: The facts as we know them - Q&A (3/11)

Question: Why did Valeant not provide R&O with proof of an invoice, when R&O lawyers requested it?

Answer:

- *At the time R&O made the request R&O had already received all of the Valeant invoices*

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R&O: The facts as we know them - Q&A (4/11)

Question: Why did Valeant's collection letter demand a payment of $69 million, when the net revenues expected were only $25 million?

Answer:

- *The $69 million is the intercompany payable balance from R&O's (valued at WAC)*

- *$25 million includes $19.3 million in outstanding accounts receivable at R&O (remittances from payors that have not been deposited in the R&O operating account), and the estimated sales value of $6M (at WAC) of inventory still held by R&O*

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R&O: The facts as we know them - Q&A (5/11)

Question: Why did Philidor's suit with R&O seek $15 million if Valeant expects net revenues of $25 million?

Answer:

- *Philidor's suit references the total accounts receivable of $19.3 million, and also references $15 million as the amount that was due to be collected and deposited in the operating account by 8/31. The remaining $4.3 million was due to be collected and deposited in the operating account in September*
- *The difference between the $19.3 million and the $25 million in the estimated value of inventory (at WAC) still on hand at R&O*

R&O: The facts as we know them - Q&A (6/11)

Question: What financial and other support does Valeant provide to R&O?

Answer:

- *Valeant provides no financial or other support to R&O*

R&O: The facts as we know them - Q&A (7/11)

Question: Why did you request payment from R&O when they have said they never heard of Valeant?

Answer:

- *From January to July 2015 Valeant sent e-mail invoices to R&O ~75 times and R&O consistently received and paid these invoices*

- *This is a recent collection dispute*

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R&O: The facts as we know them - Q&A (8/11)

Question: Did Philidor's commit wrongdoing by shipping products to California residents without a California license?

Answer:

- *We understand that:*
  - *Philidor did not dispense products to patients in California*
  - *Philidor only dispenses products to patients in states where Philidor has a non-resident license, and that does not include California*
  - *Philidor has agreements with affiliated pharmacies that have California licenses and those pharmacies have dispensed products to patients in California*

R&O: The facts as we know them - Q&A (9/11)

Question: Did Philidor misuse R&O’s NCPDP number?

Answer:

- *We understand that Philidor denies this allegation*

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R&O: The facts as we know them - Q&A (10/11)

Question: There are two websites:http://r-opharmacy.com/ and http://randopharmacy.com/, are you sure you are suing the right person?

Answer:

- *R&O has filed suit against Valeant, Valeant intends to file a counterclaim*

R&O: The facts as we know them - Q&A (11/11)

Question: Why does R&O and Philidor have the same phone number?

Answer:

- *Philidor provides back end services for R&O*

7. Philidor summary and next steps –

J. Michael Pearson

Philidor Summary and Next Steps

- Strategy working with specialty pharmacies is sound
- There have been no issues with regards to the accounting or revenue recognition of the business
- To date, we have found no evidence of illegal activity at Philidor
- We have created an ad-hoc committee of independent directors to review allegations related to the company's business relationship with Philidor and related matters
- The company has been working with outside counsel on these issues
- Future options to be considered include:
  - Exercise our option and acquire Philidor
  - Sever ties and move to 1 or more new 3rd party specialty pharmacies

Business updates – J. Michael Pearson

Q3 2015 Highlights

- Exceeded top line and bottom line Q3 guidance; 5th consecutive quarter of >10% organic growth
  - Includes negative FX impact of $172M revenues and $0.13 Cash EPS
  - Continued outperformance of U.S. businesses, particularly dermatology and contact lens
  - Strong organic growth in China (23%), South Korea (15%), and Mexico (10%)
  - Continued strong Salix performance
  - IBS-D indication for Xifaxan (including DTC campaign)
  - Salix inventories reduced to 8-10 weeks
  - Addyi launched 10/17
- Four deals closed in October
  - Brodalumab
  - Sprout
  - Synergetics
  - Amoun
- Strong cash flow from operations
  - GAAP cash flow from operations $737M
  - 90% cash conversion
- For 2015 YTD, our promoted branded Rx business showed organic growth of 53% (32% from volume, 7% from pricing actions, and 14% from gross-to-net adjustments)

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Valeant's Strategy Vis-à-vis R&D and M&A

R&D

- We remain focused on high output, low fixed cost results
- Every project is evaluated individually
- Expect to increase our spend to ~$500M in 2016 (remains 3-4% of sales) to support both legacy and new programs

M&A and Capital Allocation

- 8 year track record of effectively deploying capital via tuck-ins and large deals
- We will continue to pursue tuck-in acquisitions
- Opportunistic share repurchases and/or debt paydown
- Large deals are opportunistic

Our M&A and R&D strategies have not changed

Expectation For Business Performance Going Forward

- We reaffirm Q4 guidance and 2016 EBITDA of $7.5B except for one time expenses associated with recent events
- Q4 off to a strong start
- We are not anticipating any impact, but it is hard to predict how recent events will impact the business in the short term
- We remain committed to reducing net leverage to <4.0x adjusted pro forma EBITDA by the end of 2016
  - Committed to debt pay-down beyond the mandatory amortizations required by term loans
  - No meaningful maturities until 2018

See Note 1

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Investor Conference Call
October 26, 2015