

Activist Investor Bill Ackman Plays Defense

With about \$2 billion in losses on Valeant, Mr. Ackman struggles to salvage his big bet



William Ackman, chief executive of Pershing Square Capital Management, has watched his hedge fund's investment in Valeant Pharmaceuticals International plunge in value. Photo: Axel Dupeux for The Wall Street Journal

By Monica Langley

WSJ, Nov. 4, 2015 9:19 p.m. ET

[William Ackman](#) woke up in a Toronto hotel room well before dawn on Tuesday last week in a state of distress. One of his hedge fund's biggest bets was going badly awry. He had already lost almost \$2 billion on [Valeant Pharmaceuticals International](#) Inc., and the controversy pummeling the drug maker's stock wasn't abating.

The billionaire investor climbed out of bed, grabbed his iPhone and began tapping out an email to Valeant Chief Executive Michael Pearson and some of the company's directors.

"Your reputation is at grave risk," he wrote. "Valeant has become toxic." Mr. Ackman's hedge fund, Pershing Square Capital Management LP, was no stranger to high-stakes gambles, but this situation appeared close to getting out of hand. "Even we are very concerned," he wrote.

At 6:52 a.m., Mr. Ackman hit send.

In recent weeks, the 49-year-old Mr. Ackman has been under siege. [Valeant's stock, which once accounted for one-fifth of his fund's holdings, is down 65% since its August high](#), and Pershing Square has lost about \$4 billion in value during that period. Its four funds, now totaling \$16 billion in assets, are down 16% this year, after a record 40% return in 2014. It is the largest decline ever for his firm.

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For years, Mr. Ackman had put management on the hot seat, first as a short seller and more recently as an activist investor. Now he is on the receiving end.

"It's humbling to be on the other side," he says.

This account of his attempt to salvage his huge bet on Valeant, which has been battered by questions about its drug pricing and business and accounting practices, is based on a series of interviews with Mr. Ackman, and on conversations with other executives and advisers at Pershing Square and Valeant.

Among other things, Mr. Ackman has pressed Mr. Pearson for answers, told the lead Valeant director that Mr. Pearson might have to go, and considered dumping his entire initial investment in Valeant, for which he had paid \$3.8 billion. Ultimately, he decided to invest even more on the belief that Valeant's risks are less serious than other investors believe.

Losing bets

Valeant isn't Mr. Ackman's only dud. [Platform Specialty Products Corp.](#), in which Pershing Square holds a roughly 20% stake, dropped sharply after the CEO's retirement last month. His 2012 wager against the stock of [Herbalife Ltd.](#) hasn't worked out either, with the stock increasing nearly 50% this year.

Pershing Square has made some winning bets, too. Its huge position in [Mondelez International Inc.](#) has climbed in value by about 20%. Shares in both real-estate developer [Howard Hughes Corp.](#) and [Canadian Pacific Railway Ltd.](#) have risen sharply since Pershing Square invested in each a few years ago.

But the Valeant bet has been stressful for Mr. Ackman, a health-and-fitness buff who plays tennis competitively, contends that “sugar is poison” and this year attended a training camp run by former Navy SEALs. These days he is considering adding meditation and yoga to his regimen.

The pressure is largely self-induced, because he bets so big on so few companies. He lost more than half of his billion-dollar bet on retailing giant [J.C. Penney](#) Co., for example.

“With so much at stake for Bill financially and reputationally, there’s the feeling that Bill is trapped with this big Valeant bet and can’t get out,” says longtime friend Whitney Tilson, founder and managing partner of Kase Capital Management, an investment adviser. “But he’s as unemotional as he is stubborn. If Bill decides he’s got a losing hand, he will fold and blow it in one block overnight, the way he did with J.C. Penney.”

Mr. Ackman, who rowed crew at Harvard, set up his first hedge fund, Gotham Partners, with a friend, but ultimately wound it down after disappointing performance. He formed Pershing Square in 2004 to do so-called activist investing—taking stakes and pushing leadership to make financial or strategic changes to boost the stock price. He is known for going “all in,” making a couple of big bets a year.

Before the Valeant investment, he teamed up with the company on an unsolicited, and ultimately unsuccessful, takeover bid for Botox-maker Allergan Inc. Pershing Square’s stake in Allergan was risky—it accounted for one-third of its portfolio—but reaped a \$2.4 billion profit after the company agreed to a takeover by rival [Actavis](#) PLC.

Mr. Ackman got to know Valeant’s CEO, Mr. Pearson, during the bid. Valeant was different from traditional drug makers in that it focused more on selling drugs it acquires than on discovering medicines. Mr. Ackman sold his Allergan shares and bought a 5.7% stake in Valeant, worth about \$3.8 billion last March, or about 20% of Pershing Square’s portfolio.

The bet paid off at first. The shares, purchased at an average of \$196, hit a high of \$263 in August.

But politicians and news reports turned a spotlight on drug prices.

Valeant, based in Laval, Quebec, drew attention after The Wall Street Journal reported in April the company raised the prices of two cardiac-care drugs by 525% and 212%, after acquiring the rights to the medicines in February. Mr. Pearson told Congress last month that sometimes older

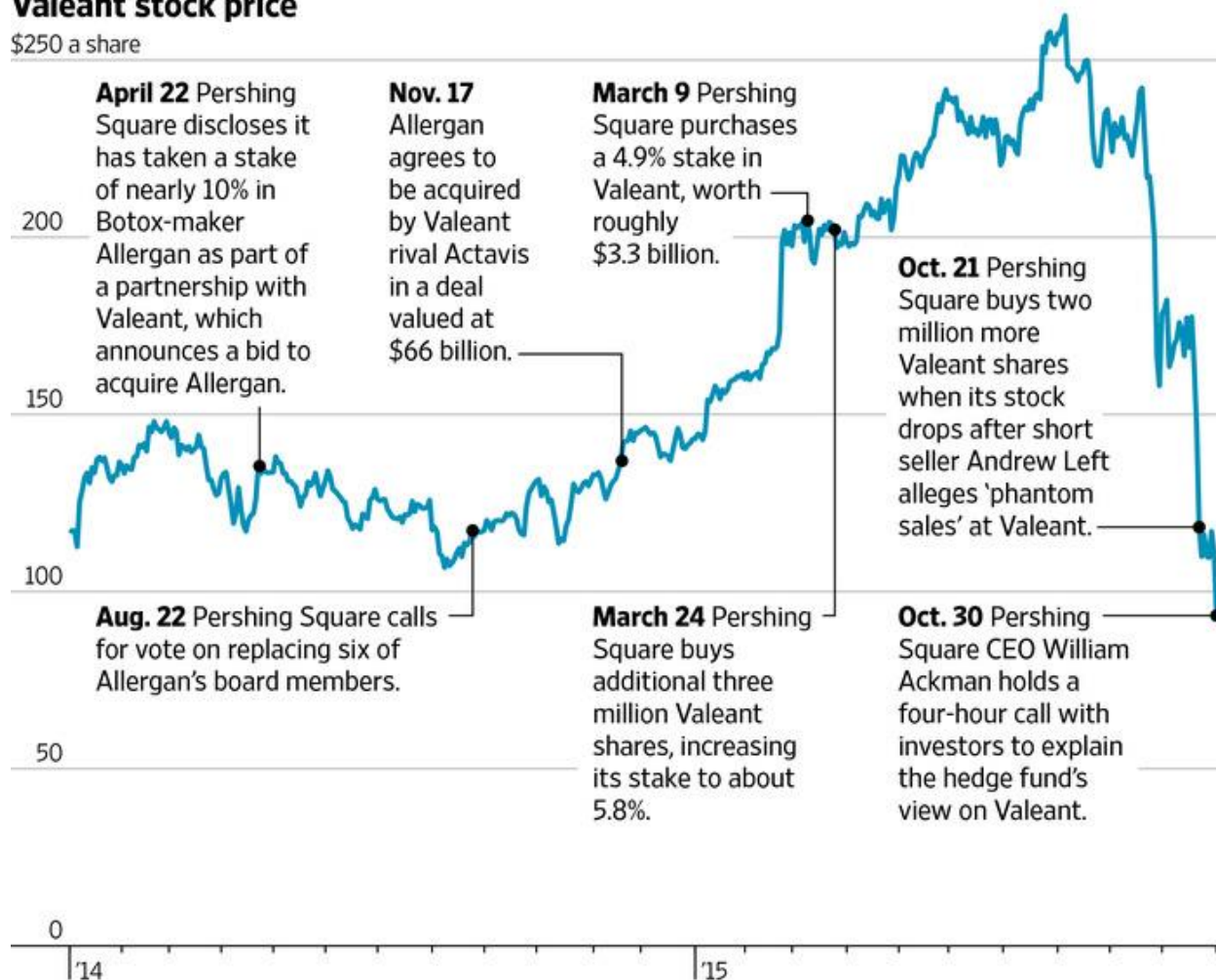
drugs are “dramatically underpriced relative to their clinical value.”

Anatomy of a Soured Investment

Hedge fund Pershing Square's huge investment in drug maker Valeant Pharmaceuticals International has turned into a white-knuckle ride for Pershing CEO William Ackman.

Valeant stock price

\$250 a share



Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

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The attention hurt Valeant's stock. Mr. Ackman called Mr. Pearson with pointed questions about the markups. He says the CEO told him the two drugs in the news were small components of expensive surgeries and deserved more profit from the procedures. "That seems reasonable," Mr. Ackman says he responded.

Valeant received subpoenas from federal prosecutors seeking information related to how it prices drugs, distributes them and helps patients afford the medicines. Members of Congress also raised questions about Valeant's price increases.

Pershing Square investors had been accustomed to high annual returns—an average of 21%, after fees, over 11 years, according to the fund’s investors. Now they began calling to complain.

Then, in an Oct. 19 conference call about earnings, Valeant detailed for the first time its close ties to mail-order pharmacy, Philidor RX Services LLC. The pharmacy helped get Valeant’s high-price drugs, rather than lower-cost alternatives preferred by insurers, into the hands of patients.

Mr. Ackman had just finished speaking at a conference on Oct. 21 when an associate told him that short seller Andrew Left had released a report on Valeant suggesting it was using Philidor and other specialty pharmacies to inflate results through “phantom sales.” Valeant denied the allegations.

Valeant’s stock plunged. Mr. Ackman telephoned Valeant’s CEO, pressing Mr. Pearson for explanations about Philidor and accounting issues. “Mike, is there any fraud going on at the company?” he asked.

Mr. Pearson told him he didn’t know of any fraud, but that the company would be investigating.

Mr. Ackman called his Pershing Square investment team. “We have two options: sell everything if there’s material fraud because the shares will go to zero, or buy now while the stock is a bargain. Nothing in the middle.”

Mr. Ackman decided on the latter approach. That afternoon, his fund bought about two million more shares at \$108 apiece. Valeant shares ended the day, Oct. 21, down 19%. (The stock closed Wednesday at \$91.98.)

Five days later, Valeant told investors in a special conference call that it had found “no evidence whatsoever” of illegal activity, but that it was creating a board committee to look at its ties with Philidor.

Mr. Ackman says he found the call disappointing because the answers seemed “scripted.”

Investor pressure

Pershing Square investors pounded the hedge fund with calls. Investor relations asked Mr. Ackman how to respond. From a car on his way to the airport, he called into a meeting and laid out plans for a conference call of his own with investors to discuss Valeant.

Chief Financial Officer Nick Botta disagreed. “I’m concerned we will look like we’re defending Valeant while they should be defending themselves,” he recalls saying.

Mr. Ackman responded that he wanted “to give the information I’d want to know as an investor.”

Ali Namvar, a Pershing Square investment partner, suggested a letter to investors instead. But Mr. Ackman ordered a conference call for Friday morning. “We shouldn’t hide from our investors,” he said.

Mr. Ackman jetted off to Toronto for a board meeting of Canadian Pacific Railway.

Early the next morning, his sharply worded email landed in the inboxes of Valeant’s Mr. Pearson and several directors. Valeant executives didn’t agree with all of Mr. Ackman’s conclusions, but they decided that because he was a big shareholder, they needed to hear him out.

Mr. Pearson invited Mr. Ackman to call in to a Valeant board meeting that morning.

“Management needs to come clean,” Mr. Ackman told Valeant’s directors. “Hold a conference call today and lay out everything you know.”

The board decided against that because it still didn’t know all the facts about Philidor.

Questions continued to swirl about the pharmacy’s sales and Valeant’s ties to it.

A Philidor spokesman has said it “is the patient’s advocate in seeking to ensure that they receive the medication that was prescribed by their doctor at the lowest possible cost to them.”

Valeant’s decision not to hold a conference call didn’t sit well with Mr. Ackman, who phoned the company’s lead director, Robert Ingram, the former CEO of [Glaxo Wellcome](#) Inc. “If Mike [Pearson] hides in the bunker on this, he can’t be CEO,” Mr. Ackman said.

Mr. Pearson can’t say more now, given that the company is in the middle of an investigation, Mr. Ingram replied.

Mr. Ackman told him that Valeant needed a leader to repair the company’s reputation, including testifying before Congress, and that “these are not Mike’s best skills.”

Mr. Ingram said the board was on top of the situation.

Mr. Ackman had long been supportive of Mr. Pearson, a former management consultant, whom he viewed as a fellow outsider taking on the establishment. On his way to the Toronto airport, Mr. Ackman telephoned Pershing Square Vice Chairman Stephen Fraidin. It wasn’t acceptable for Valeant not to be visible and vigorous protecting the company, Mr. Ackman said.

“Our Friday call should motivate them to do the right thing quickly,” he said. “If they do the wrong thing, Valeant knows I’ll say that.”

With Valeant’s stock plunging, Mr. Ackman fielded a call from Standard & Poor’s about the impact on [Pershing Square Holdings](#), its publicly traded investment vehicle. Valeant’s troubles weren’t representative of the broader portfolio, Mr. Ackman said.

S&P nevertheless revised Pershing Square's publicly traded bonds outlook to negative, from stable.

Back in New York, Mr. Ackman prepared for his conference call, waiting to see what Valeant would do. Early on Oct. 30, Valeant said it was ending its relationship with Philidor and that Philidor was shutting down after major pharmacy-benefit managers said they would no longer do business with it.

Mr. Pearson said in a written statement: "We understand that patients, doctors and business partners have been disturbed by the reports of improper behavior at Philidor, just as we have been. We know the allegations have also led them to question Valeant and our integrity, and for that I take complete responsibility."

Mr. Ackman was satisfied. Some 9,100 listeners tuned in via phone and computer for his session with Pershing Square investors. In a four-hour call, Mr. Ackman defended Valeant's business model and its management, but pointed to missteps in its handling of the crisis. He said that Valeant's business was fundamentally strong, that investors had overreacted and that the stock was undervalued.

In the middle of the call, a tweet by Mr. Left, the short seller, threatened more bad news. Valeant shares closed down nearly 16%.

Mr. Left didn't make new accusations, but he subsequently slammed Mr. Ackman as lacking "moral indignation" against Valeant for its drug markups.

"He's irrelevant," Mr. Ackman says.

"The market thinks differently," responds Mr. Left.

Pershing Square is still deep in the red on Valeant.

"It will be heroic if we finish up this year," Mr. Ackman told his colleagues early this week. "But the reports of my demise are greatly exaggerated."

Write to Monica Langley at monica.langley@wsj.com

More here: <http://www.businessinsider.com/ackman-email-to-valeant-2015-11>

<http://www.minyanville.com/business-news/editors-pick/articles/11/3/2015/id/56227?refresh=1>

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Hubris Cubed: The Valeant Story

By **Peter Atwater** Nov 03, 2015 1:27 pm

The Valeant story is a classic case of overconfidence.

Valeant (VRX) has fallen and it won't get back up.

I offer that conclusion not as a short-seller hoping to profit from the company's demise or as a research firm trying to make a name for itself with a brash call.

As a socionomist and researcher in confidence-driven decision making, I am simply interested in what behaviors say about confidence levels.

As I look at Valeant, there is a rich mosaic, lush with overconfident behavior which suggests that things are likely to get much worse before they get better.

Before detailing many of the extreme overconfident behaviors on display, it is important to have a relative sense for the collective confidence in and around Valeant.

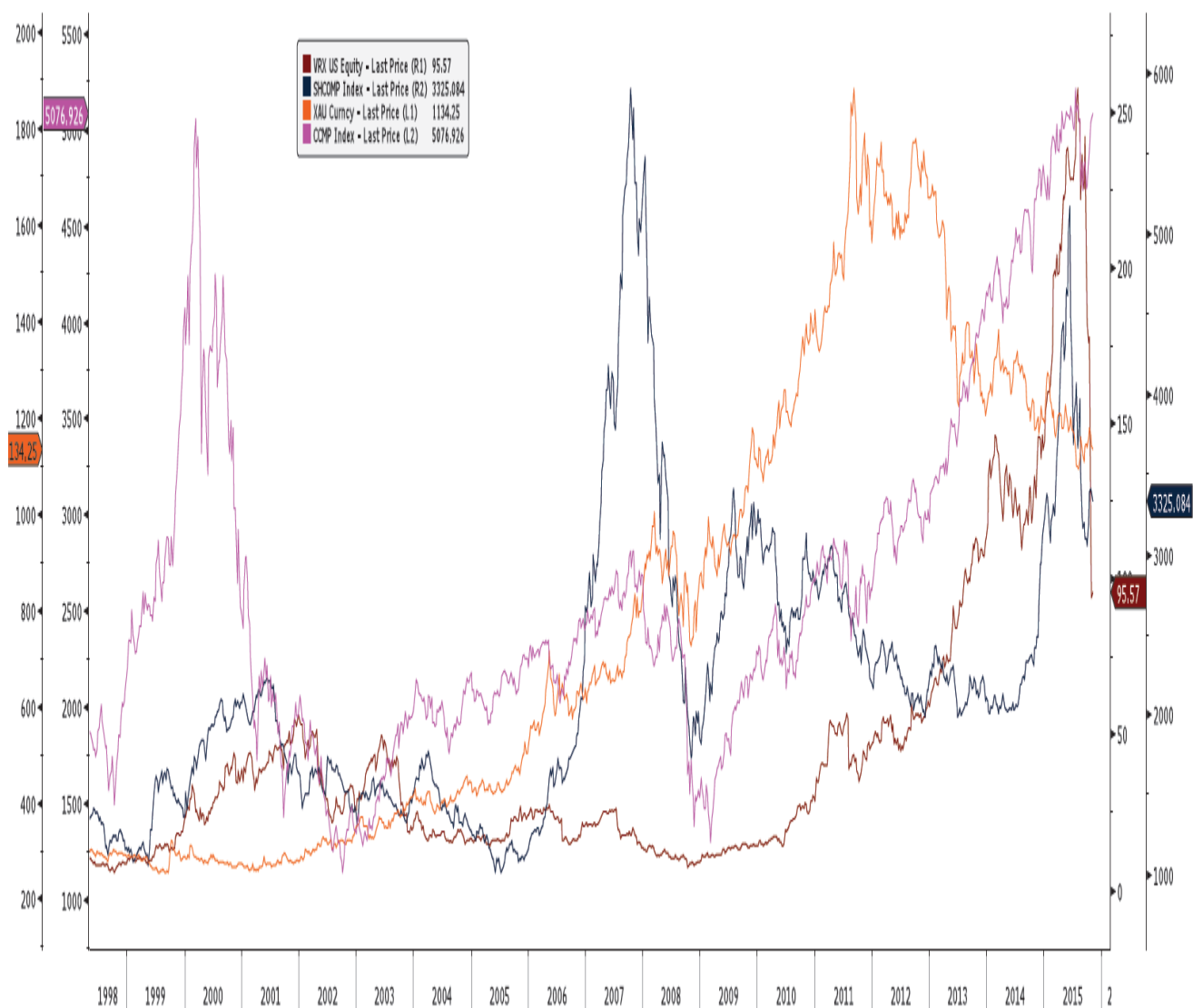
As a researcher, I believe that stock prices can serve as a useful proxy for confidence. At major lows in price, uncertainty abounds.

At the peak of price, there is extraordinary trust in a company's management, products, profitability, and future.

The higher price goes, the more we believe.

As this chart from Michael Sedacca of [Rareview Macro](#) shows, the recent top in Valeant's stock price wasn't just a major peak in confidence.

It was a peak that rivals the tops in the Nasdaq, China and gold bubbles.



This chart suggests that at the recent top, not only was there extraordinary confidence, but everyone -- the entire entourage of debt and equity investors, rating agencies, regulators, suppliers, customers, the whole food chain - was in.

Sentiment was one for the record books.

In my book *Moods and Markets*, I listed several traits that are always present at extreme peaks in confidence.

While we are still in the very early innings in uncovering the signs of overconfidence at Valeant's peak, we are already seeing significant examples of many of them.

1) Big Truth

As I wrote in *Moods and Markets*, **underlying every bubble is a "statement that is both compelling and at the same time, if false, would draw the entire investment premise into doubt.** It's something like 'the internet will change the world forever,' or 'China will dominate the global economy.'"

For Valeant, the Big Truth was that the company could acquire an unlimited number of drug companies and dramatically increase prices while cutting R&D and tax expenses.

At Valeant's peak, no one doubted its Big Truth. In fact, the short-selling doubters had been brutalized by the surging stock price.

It is very likely that they too had capitulated.

2) Abdication of Risk Management

While I haven't yet seen an example of the abdication of risk management from within Valeant, the oversized positions of two of the company's leading shareholders certainly qualify. **At the peak, almost 30% of Sequoia was invested in Valeant; and media reports suggest that Valeant represents somewhere between 15 and 20% of Pershing Square's investment portfolio.**

But these firms were hardly alone in their aggressive positions. Yesterday, the [*Wall Street Journal*](#) noted this:

*At its peak, Valeant accounted for **6.1% of Canada's S&P/TSX Composite Index**, as battered energy- and mining-sector stocks shrank on the country's flagship benchmark.*

As Valeant's influence grew, portfolio managers came under increased pressure to take risks to ensure their fund's performance was aligned with the S&P/TSX index. The company's enhanced weighting attracted a broad cross section of Canadian funds, which align their investments with the index to ensure their performance doesn't fall behind.

By not investing in such a heavily-weighted stock, they risked underperforming the index and their peers.

"Most managers wouldn't bet against the stock because if they were wrong their compensation would get hit," said Peter Hodson, a retired money manager at Sprott Asset Management and CI Financial Corp., who runs an independent research firm called 5i Research.

Some funds conceded to clients that Valeant's prominence on the index compelled them to bet on the company, despite the hazards of betting on a skyrocketing stock. (bolded for

emphasis)

As we see routinely at market peaks, fund managers throw risk management aside because of perceived opportunity and the dire consequences of underperformance.

Again, THE top creates a social vortex in which everyone wants/needs to be in.

3) Organizational Complexity

It has been fun to see the historical analogies that have popped up in media stories and pundit commentaries on Valeant.

On Friday, [Josh Brown](#) cited a presentation by Berkshire's Charlie Munger earlier this year tying Valeant to ITT -- a company which went on a mad acquisition spree during the early 1960's only to collapse under its massive collective weight shortly thereafter.

While Bill Ackman downplayed the analogy because of Valeant's monoline industry focus, I think the ITT connection more than fits.

In fact, in *Moods and Markets*, I specifically identified ITT as "a great example of the oversized complexity" that naturally accompanies extreme peaks in confidence.

Looking at the all of the companies Valeant has rolled up in the past five years -- not to mention the company's relationships with specialty pharmacies and use of variable interest entities (VIEs) -- "oversized complexity" certainly fits.

And we are still in the early stages of discovery. As confidence falls further, and scrutiny naturally intensifies, I expect we will find many, many examples of just how complicated Valeant became.

But I think it is also important to appreciate the extraordinary speed at which Valeant grew. The Valeant of today is essentially a five year old enterprise. From 2010 to 2015, Valeant acquired more than 100 companies and amassed more than \$30 billion in debt.

That investors enabled the layering and re-layering of increasing complexity and leverage with one deal right after another itself speaks to the extreme confidence sustaining the company's growth trajectory.

4) Excessive Architecture

Like the example of risk management abdication above, the best example of excessive architecture also ties to Valeant's shareholders -- in this case, Pershing Square's CEO Bill Ackman.

Last fall, the [New York Times](#) reported that Mr. Ackman and "a couple of very good friends" spent \$90 million to purchase "The Winter Garden" -- a 13,500-square-foot duplex "with an eagle's-eye view of Central Park" atop One57, a new 90-story hotel and condominium building "described by one critic as 'a luxury object for people who see the city as their private snow globe.'"

Mr. Ackman referred to it as "the Mona Lisa of apartments."

What was so extraordinary about the real estate purchase, though, was Mr. Ackman's intent. He didn't plan to live there. He bought the condo to flip it for "fun."

But Mr. Ackman's over-the-top real estate adventures didn't stop there.

This summer, [it was reported](#) that he was working with "starchitect" Rafael Vinoly to renovate a former Ford car-repair facility on Manhattan's West Side into new office space for Pershing Square complete with a swimming pool and tennis court on the roof and "internal automobile ramps leading to the upper floors of the building so Pershing Square employees can drive right to their office's doorstep."

5) Liberal Accounting

On Sunday, Gretchen Morgenson of the *New York Times* [took Valeant to task](#) for the company's "creative" financial reporting:

In news releases, Valeant executives are careful to include their results under accounting rules. But these communications tend to focus more on the company's primary hand-tailored figure - what it calls "cash E.P.S." When providing forecasts, for example, the company supplies only pro forma numbers.

Valeant strips out a laundry list of expenses from its revenue, including those related to stock-based compensation, legal settlements and costs associated with restructuring and acquisitions.

Most significant, perhaps, for Valeant are costs related to acquisitions. Generally accepted accounting principles require companies to recognize over time the diminishing value of intangible assets they acquire when buying another company - or amortization. Valeant excludes those costs.

I suspect that this is just the beginning of the accounting scrutiny Valeant receives.

In *Moods and Markets*, I write, "At its core, GAAP accounting is a regulation and is subject to the same mood-based influences seen elsewhere, such as in banking and nuclear energy. When we are confident, we deregulate...Even more, as both assets and liabilities reflect corporate management's mood, in periods of rising mood there is a natural exponential effect in which asset values are inflated and liabilities reduced by the increased optimistic application by management of increasingly

lax accounting rules."

As an acquisition-driven company, Valeant benefited enormously from the liberalization of the accounting rules for mergers and acquisitions that took place at the very peak of confidence in 2001. If history holds, what we will soon discover is that the company liberally applied not just this very liberal rule but all of its accounting principles too as confidence soared.

But that is just half of the story. As Ms. Morgenson states, at the peak, investors were more than eager to not just accept the company's non-GAAP earnings measures, but to apply an oversized multiple to them, too.

At THE top, liberal accounting rules are liberally applied by management then liberally interpreted by investors and then liberally valued by the market. The stock price accordion is pulled out as wide as it can be.

Nothing exceeds like excess; and at extreme peaks in confidence, what people think and how they act is truly extraordinary. Even more remarkable, though, the nature of those behaviors is incredibly consistent.

At THE top, we do the same things over and over.

Based on what I see, Valeant has many of the behavioral characteristics which suggest that what we just witnessed wasn't just a top, but THE top. Everyone who could be in was in. Even more, their actions reflected their extreme overconfidence in the company.

Tomorrow, I will discuss the implications of the bursting of the Valeant bubble. They're far reaching and woefully underappreciated by investors today.

Confidence is like a Lego Tower: It takes a long time to build, but can be destroyed in an instant. And when the tower is built to the sky, the pieces fall far and wide.

Peter Atwater's groundbreaking book "Moods and Markets" is now available on [Amazon](#) and [Barnes & Noble](#).

"Peter Atwater brilliantly provides a framework for understanding both the socioeconomic hubris that led to the great credit bubble of the past decade and the dark social-psychological hangover that has resulted from its collapse. In so doing, he offers an invaluable guide to what promises to be a very difficult and turbulent period ahead as we experience what he calls the 'me, here, and now' behavioral tendencies of the post-crash world." -Sherle R. Schwenninger, Director, Economic Growth Program, New America Foundation

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Here's how activist investor William Ackman got it wrong

By Thomas Lee – June 23, 2015 – *San Francisco Chronicle*



William Ackman is CEO of Pershing Square Capital, a hedge fund that invests in select companies. He was wrong about Target and J.C. Penney. Photographer: Norm Betts/Bloomberg via Getty Images

The first question directed at William Ackman was both fairly simple and also impossibly complicated: What exactly is your business?

“Harvesting souls,” Ackman said, as the crowd at Stanford Law School chuckled.

Ackman, along with Carl Icahn and Daniel Loeb, is probably one of the country’s best known activist investors — professional agitators who buy large stakes in companies they deem poorly run and then push the CEO and board of directors to do things they think will boost the stock price: merge with a competitor, spin off a business, cut costs, buy back shares.

Not surprisingly, activist investors are highly controversial — hence Ackman’s joke. Some see them as knights in shining armor, holding boards and executives accountable for lousy performance. Critics, though, see activists as short-term opportunists who just want to make a quick buck and couldn’t care less about other shareholders.

Icahn, a notorious corporate raider who recently went after Silicon Valley stalwarts Apple, Netflix and eBay, fits this category.

“The best protection (against activist investors) is running a successful enterprise,” Ackman said.

Increased activity

And it seems activist investors are rattling cages more often these days.

In 2014, 344 companies were subjected to activist demands, compared with 136 four years ago, according to Activist Insight.

“Every company is working hard to improve their business” because of the prospect of activists launching campaigns, Ackman said at the annual Directors College talks at Stanford this week. “It’s incredibly healthy for the capital markets.”

So what kind of activist is he? A complicated one, as it turns out.

Ackman says he’s launched campaigns because he believes in the long-term prospects of his targets.

I don’t doubt his sincerity. But sincerity can sometimes morph into arrogance and self-righteousness.

And those traits have tripped up Ackman in the past, despite his intelligence and success.

Let’s start with Target. In 2007, Ackman, through his hedge fund Pershing Square Capital, started buying shares in the nation’s second-largest retailer, eventually becoming its third-largest shareholder.

Ackman argued that Target shares were undervalued, and he had a plan to fix that. He demanded the company sell its credit card business and spin off its stores into a publicly traded real estate investment trust. He fought a bitter and costly proxy battle with Target’s board and ultimately lost.

I don’t have a problem with Ackman picking a fight with the Target board, because the company’s directors had grown complacent.

But Ackman identified the wrong problems and therefore the wrong solutions. Target’s biggest problem was that fewer people were visiting stores because of the growth of online shopping and mobile devices.

Hard to see how creating a REIT would help Target remain relevant with a rapidly changing consumer base.

As it turns out, Target didn't need Ackman to boost its stock price. Ackman sold his remaining Target shares during the first quarter of 2011, when the stock traded around \$50 per share. Since then, Target has upped its digital game and opened smaller stores, and its stock has soared to more than \$80.

Penney missteps

Ackman had similar results with J.C. Penney (perhaps he should just stay way from retail stocks). In 2011, he spent \$900 million to acquire a stake in the struggling chain and joined the board.

Through Ackman's agitation, Penney hired former Apple executive Ron Johnson as its CEO. The result was an unmitigated disaster.

Johnson decided to abruptly end Penney's discounting (the reason people shopped at the chain in the first place) and create high-style stores within a store. The moves alienated the retailer's core customers and sales plummeted.

Ackman fundamentally misread Penney's situation. He thought the company needed a visionary like Johnson, who developed Apple Stores, to quickly reimagine the business. But in truth, Penney needed a CEO who could first stabilize store operations and figure out how to boost online sales.

Ackman's tactics are also highly questionable, despite his insistence that activists like himself "are simply offering proposals."

Herbalife demands

That's laughable, considering his dealings with Herbalife. Ackman has openly accused the supplement maker of fraud even as he bet \$1 billion the stock will go down. Encouraging the federal government to investigate Herbalife sounds a little more aggressive than offering suggestions to better the business.

The real question is not the record of individual activists like Ackman and Icahn but why companies are so vulnerable to them in the first place.

The rising popularity of activist campaigns means that boards should better communicate with investors, said Dan Gallagher, a Republican-appointed member of the Securities and Exchange Commission, who also spoke at the Stanford event.

Gallagher does not seem to favor new laws to regulate activists, and he noted that boards "are simply mismanaged, have grown stale, become too chummy with management, possess irrelevant skills."

“If corporations are republics, then boards need to engage with investors with the same vigor as politicians,” he said. That way, “they can get out in front of these shareholder activists.”

Gallagher seems open to proposals to blunt the power of activists by strengthening the hand of long-term shareholders.

The common knock on activists is that they are short-timers, forcing companies to make big decisions and then bailing out of the stock.

One idea being floated among corporate governance circles is to give more voting power to shareholders who promise not to sell the stock for a certain length of time.

The idea is “radical but intriguing,” Gallagher said.

That way, guys like Ackman who claim to be interested in the long-term health of a company can put their money where their mouths are.

And Ackman has plenty of both.

Thomas Lee is a San Francisco Chronicle columnist. E-mail: tlee@sfchronicle.com Twitter: @ByTomLee

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Business News | Thu Nov 5, 2015 3:53pm EST

Valeant CEO feels heat as shares tumble to 2-1/2 year lows

NEW YORK/BOSTON | BY [CAROLINE HUMER](#) AND SVEA HERBST-BAYLISS



The ticker information for Valeant Pharmaceuticals International Inc. is displayed on a screen above the post where it's traded on the floor of the New York Stock Exchange November 4, 2015.

REUTERS/BRENDAN MCDERMID

Valeant Pharmaceuticals International Inc ([VRX.TO](https://www.vrx.to))([VRX.N](https://www.vrx.n)) shares fell as much as 20 percent on Thursday to a level not seen since 2013, heaping new pressure on Chief Executive Officer Michael Pearson after weeks of steep losses due to concerns about the drugmaker's business practices.

The stock has plunged from \$263.70 on Aug. 5 to below \$80 on Thursday on scrutiny over high price markups for its drugs and accusations it used a specialty pharmacy, Philidor Rx Services, to inflate revenue. Valeant has denied the allegations, but has not

allayed investor concerns as new reports surface of questionable billing practices at Philidor.

One new trigger for selling, said BMO analyst Alex Arfaei, may be a Wall Street Journal article on Thursday in which major Valeant investor Bill Ackman, of hedge fund Pershing Square Capital Management, told a Valeant board member that Pearson may have to go.

Ackman's firm and its investors have lost roughly \$2.3 billion from their 6 percent stake in Valeant since the bet was made early in the year. The size of Ackman's fund has shrunk to roughly \$14.5 billion from \$20 billion earlier in the year as Valeant, his biggest bet, has soured.

Later Thursday, Ackman in an email to Pearson, seen by Reuters, expressed confidence in the CEO's leadership and willingness to take steps in the best interest of investors.

"You are one of the most shareholder-oriented CEOs I know," Ackman wrote to Pearson. "You have assured me that you and the rest of the board are considering any and all alternatives that would benefit shareholders and other stakeholders."

A Valeant spokeswoman said Pearson retained the full confidence of the company's board of directors. "Mike remains focused on running the business and has been meeting with physicians, partners and other stakeholders," Laurie Little said.

The comments did not halt the slide in U.S.-traded shares, off 15 percent to \$78.27 on Thursday after hitting a bottom of \$73.37 earlier in the session, the lowest since May 2013.

The latest selloff is pushing longer-term investors who bought stock more than two years ago into the red. Tiger Ratan Capital Management, a smaller hedge fund, invested in Valeant 2-1/2 years ago and had 22 percent of its assets in the stock at the end of the second quarter.

RELATED COVERAGE

- › [Ackman, in email, says supports Valeant CEO Pearson](#)

One large investor in Valeant who declined to be identified said Pearson is still the right man to be CEO. "Why would you force out the guy who knows this operation better than anyone else in the middle of this crisis?" he said.

STEEP LOSSES

Pearson, who grew up in Canada, took over at Valeant in 2008 after working as a pharmaceutical industry consultant at McKinsey & Co. He drove up Valeant's revenue sevenfold, mainly through a quick succession of acquisitions, including Salix Pharmaceuticals and Bausch + Lomb.

Pearson has been widely criticized for eliminating jobs and cutting research and development for quick returns at companies that Valeant buys. The company is being investigated by prosecutors in New York and Massachusetts and been summoned to testify to Congress over its steep drug prices increases.

But the steepest stock slide was precipitated by a report from influential short-seller Citron Research on Oct. 21, claiming the company was using an undisclosed relationship with Philidor to inflate revenue. Valeant has since cut off ties with the firm and said it was investigating its practices.

"They really possess very little in redeeming qualities in the eyes of the public," said Peter Mann, portfolio manager at Gluskin Sheff + Associates, which sold its small Valeant position in September. "The market overall has probably reached its saturation point" with Valeant.

Mutual fund managers, in particular, are feeling the pressure to tell clients and their own management they have steered clear of Valeant, something that is exacerbating the selling pressure.

Weitz Investment Management said on Nov. 2 on its website that it had exited its Valeant positions. Hedge fund Blue Mountain said it got out of the position in October but did not rule out getting back in. While Blue Mountain did not name Valeant in its

letter, a source confirmed it was the drugmaker. Hedge fund Jana Partners has also exited Valeant.

Other Valeant investors who bought the stock in 2013, including hedge funds Arrow Capital Management, Antipodean Advisors, Meru Capital and Hoplite Capital, would be feeling pain if they still hold the stock. Other big investors, including ValueAct and Viking Global Investors, have been with Valeant for longer and may still be sitting on gains.

Valeant short-sellers, however, are benefiting for now. John Hempton of Bronte Capital told Reuters he has increased the firm's short position "many times on the way down, all at prices over \$100." Hempton was among the first investors to raise red flags on Valeant's business relationship with Philidor.

Activity in puts betting on the shares dropping as low as \$45 in the coming months suggested some investors were loading up on disaster insurance.

On Thursday, options volume on Valeant surged to 237,000 contracts, or 3.4 times the daily average, with heavy trading in puts that protect against declines in the shares.

Even so, bond traders have not written off Valeant. Valeant bonds dropped by as much as 4 points in early trading on Thursday before paring back nearly half of those losses.

"There is a view that Valeant has a core group of businesses that should provide support relative to their existing debt obligations," said Jon Duensing, deputy chief investment officer at Amundi Smith Breeden.

(Reporting by Caroline Humer in New York and Svea Herbst-Bayliss in Boston; Additional reporting by Rod Nickel in Winnipeg, Manitoba and [Jennifer Abla](#), Lawrence Delevingne, [Rodrigo Campos](#), Saqib Ahmed and [Caroline Valetkevitch](#) in New York; Editing by [Michele Gershberg](#), Jeffrey Benkoe)

Read more at Reuters <http://www.reuters.com/article/2015/11/05/us-valeant-pharmacies-idUSKCN0SU2EP20151105#3iS6zOKMMWHTJR2a.99>

Valeant -- The Next Shoe To Drop

Nov. 4, 2015 1:10 PM ET | [23 comments](#) | About: [Valeant Pharmaceuticals International, Inc. \(VRX\)](#), Includes: [CVS](#), [ESRX](#), [WFT](#)

Disclosure: I am/we are short VRX, WFT. (More...)

Summary

Valeant was downgraded to "B+" from "BB-" by S&P after Valeant severed ties with Philidor.

Philidor represents about 6% of Valeants revenue through January. Loss of that revenue stream would come at an inopportune time.

Valeant's \$32B debt load is at 6.3x EBITDA. It could deteriorate to 6.7x EBITDA after the loss of Philidor.

If Valeant's EBITDA slides further due to a loss or its reputation with doctors or pharmacies, its debt could become untenable.

Valeant's inability to service its debt could be the next shoe to drop.

(click to enlarge)



Valeant CEO Mike Pearson. Source: forbes.com

When it rains it pours for Valeant (NYSE:[VRX](#)). Late last week CVS (NYSE:[CVS](#)) and Express Scripts (NASDAQ:[ESRX](#)) [dropped](#) Philidor from their pharmacy networks due to noncompliance with provider agreements. Valeant promptly [cut ties](#) with Philidor, citing a loss of confidence in the specialty pharmacy group's ability to operate in a manner acceptable to patients and doctors. Now Standard & Poor's has lowered the company's credit rating to "B+" from "BB-" with a negative outlook:

Valeant severed ties with its affiliate, specialty pharmacy network Philidor RX Services, after leading pharmacy benefit managers ("PBMs") terminated their relationships with Philidor ... We view the abrupt nature of this separation as likely to exacerbate the loss of revenues and profits we already anticipated from the reduced visibility of that channel.

While this channel represents only a modest amount of Valeant's revenues (6.8% of its third quarter revenues), we believe these developments further harm Valeant's already tarnished reputation. We believe this could compromise the company's ability to effectively market its products to doctors through its sales force. We also believe these developments further increase potential legal, regulatory, and reputational risks to the company.

The Situation

Last week short seller Citron Research questioned if Valeant was stuffing its Philidor distribution channel with invoices to [deceive auditors](#) and book revenue. The [smoking gun](#) appeared after the *Wall Street Journal* divulged Philidor's aggressive sales practices. Such practices included Philidor's use of another pharmacy's identification number in order to get an insurer to reimburse claims. This information set off a chain of events that led to major pharmacy benefit managers and ultimately, Valeant, cutting ties with Philidor.

Valeant has grown its operations by acquiring drug makers and raising target companies' drug portfolios to prices that Valeant thinks the market would bear. The current loss of its reputation due to the Philidor debacle could prompt doctors and/or pharmacies to tamp down the use of its products. Secondly, politicians have looked askance on Valeant's practice of raising drug prices. Historically, drug companies have justified price increases in order to recoup R&D costs needed to launch drugs. Lastly, with its debt considered "highly speculative" by S&P, Valeant may find the debt markets closed to it; thus, its strategy of employing debt for acquisitions could be null and void.

Despite the potential for Valeant to lose revenue and earnings, its \$32 billion in debt still needs to be repaid.

Valeant Debt Ratios (\$ millions)				
	Valeant	Philidor Contribution (%) ¹	Philidor Contribution (\$)	Valeant ex-Philidor
2015 Run Rate Revenue	\$ 10,280	6.8%	\$ (699)	\$ 9,581
2015 Run Rate EBITDA	4,929		(335)	4,593
EBITDA Margin	48%		48%	48%
Current portion L/T debt	707			707
L/T debt	30,176			30,176
Total debt	30,883			30,883
Debt/EBITDA	6.3x			6.7x
1: Provided by S&P				
Note: Run-rate revenue is YTD September 2015 results annualized				
Note: Debt at September 30, 2015				
Source: Shock Exchange				

The above chart highlights the company's debt ratios. Based on run-rate EBITDA of \$4.9 billion, the company's \$31 billion debt is as 6.3x run-rate EBITDA. This would be considered "junk" levels by the rating agencies.

- Run-rate revenue and EBITDA are based on results through year-to-date September 30, 2015, and annualized. EBITDA was calculated based on [i] operating income, plus [ii] add backs for depreciation & amortization, restructuring costs, in process R&D impairments and other expense (income).
- Debt is at September 30, 2015.
- The Philidor contribution to revenue of 5.9% [was derived](#) from the *Financial Times*. For Q3 2015 6.8% of Valeant revenue was derived from products distributed through Philidor. However, since January about 5.9% was distributed through Philidor.
- I assumed Philidor also represented 5.9% of the company run-rate EBITDA, and it would go away once the company cut ties with Philidor.

If revenue and EBITDA generated by products sold through Philidor do not return, the company's debt/run-rate EBITDA would be at about 6.7x. Revenue and EBITDA could deteriorate further if doctors or pharmacies are reticent to prescribe Valeant products due to its loss of reputation in the marketplace. This scenario represents the "perfect storm" for Valeant. It amassed \$31 billion in debt for acquisitions. The cash flow generated from those acquired companies could fall sharply, yet the debt still has to be repaid.

We have seen the "perfect storm" play out with Molycorp ([OTCPK:MCPIQ](#)), and now with Weatherford (NYSE:[WFT](#)). Molycorp raised debt to fund the \$1.2 billion acquisition of Neo Materials Technologies. Shortly thereafter, rare earth prices tumbled. Molycorp defaulted on its debt and is eventually went bankrupt. Weatherford has amassed \$7.7 billion in debt for acquisitions in the oilfield services space. Now that oil prices are 60% off their 2014 peak and oil & gas E&P has been cut, Weatherford's debt has been [junked](#) by Moody's.

Conclusion

The potential loss of revenue and EBITDA represented by products sold through Philidor could come at an inopportune time. If the company loses additional revenue and earnings due to the diminution of its reputation amongst doctors and pharmacies, its \$31 billion debt load could become untenable. Principal repayments of \$1 billion are due through 2016. After that, I believe the company could have trouble making principal and interest payments. Avoid VRX.

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NOV 4, 2015 @ 10:06 AM **6,063** VIEWS

Wallace Weitz Exits Valeant, Issues Statement



GuruFocus,
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[Wallace Weitz](#) ([Trades](#), [Portfolio](#)), founder of \$5 billion Weitz Investment [Management](#), told investors yesterday via his website that they had jettisoned their entire position in [Valeant Pharmaceuticals](#) ([NYSE:VRX](#)).

“While we don’t usually comment on individual portfolio holdings intra-quarter, we have received questions regarding Valeant Pharmaceuticals,” The

How VRX Got Vaporized Nov. 2015

Weitz Funds statement on Valeant said. “Valeant was a very profitable investment for our funds over the past four years. As of the September quarter-end we had significantly reduced our positions. Recent developments about the company’s pharmacy relationships, pricing policies and business practices led us to sell our remaining shares in late October. We no longer own Valeant in our client portfolios or mutual funds.”



*Michael “Mike” Pearson, chairman and chief executive officer of Valeant Pharmaceuticals International Inc., pauses during a Bloomberg Television interview in New York, U.S., on Wednesday, April 23, 2014. With his \$45.7 billion bid for Allergan Inc., Pearson is pulling the credit rating of Canada’s most indebted junk bond issuer closer to investment grade while attempting the biggest takeover in the country’s history. Photographer: Scott Eells/Bloomberg *** Local Caption ****
Mike Pearson

Weitz has become the latest investment house with a stake in the beleaguered company to address the position to shareholders after a short-seller report sent its price down by more than half, joining [Bill Ackman](#) ([Trades](#), [Portfolio](#)) and Ruane Cunniff. The latest official filings from the June second quarter show Weitz with 716,730 shares of Valeant, a 0.21%

piece of the company worth 4.5% of his shares outstanding. But in a letter dated Oct. 27, Weitz said he had “significantly trimmed” his position in the third quarter and became a buyer again in October after several years at below \$170 per share.

The shareholder report blasting Valeant that managers referred to accused the company of selling product to pharmacies it had an option to own to inflate revenue and profits, comparing it to Enron.

Ruane Cuniff, a guru firm and the company’s largest shareholder, defended Valeant in an Oct. 28 statement, saying its author, Andrew Left of Citron Research, “exploited the negative sentiment surrounding Valeant” for substantially raising prices on drugs it acquired. With almost 35.9% of the fund invested in 9.9% of Valeant, the stock’s freefall “caused an extraordinary level of pain,” managers said, especially because its central allegation “is false.”

“Our belief has always been that [Valeant CEO J. Michael] [Pearson](#) is honest and extremely driven. He does everything legally permissible to maximize Valeant’s earnings. One lesson of recent events is that sometimes doing everything legally permissible to maximize earnings does not create shareholder value. All enduring businesses must strive to earn and maintain a good reputation,” Ruane Cuniff said.

Even influential investors who did not own Valeant shares have spoken publicly about the company. Notably, [Charlie Munger](#) ([Trades](#), [Portfolio](#)), [Warren Buffett](#) ([Trades](#), [Portfolio](#))’s business partner at [Berkshire Hathaway](#) [BRK.B +%](#) ([NYSE:BRK.A](#))([NYSE:BRK.B](#)), the second-largest holding of Ruane Cuniff, said he instead viewed the company’s sizable profits as not enticing considering its strategy for making them.

The price gouging the company has engaged in is “deeply immoral” and “similar to the worst abuses in for-profit education,” Munger said in an interview with [Bloomberg](#) Sunday. As a value investor, he also called its method of acquiring companies and raising prices a “phony growth record.”

[Bill Ackman](#) ([Trades](#), [Portfolio](#)) of Pershing Square, an admirer of Buffett and Munger, published a [40-page report](#) defending Valeant last week. He also seemed eager to increase his stake, ending it with the famous Buffett quote to “be fearful when others are greedy” and vice versa. At second quarter-end Ackman was Valeant’s third largest shareholder with 5.69% of shares.

At close on Tuesday Valeant’s shares had declined 2.68% for the day to \$97.86 per share, down from their 52-week peak of \$263.81. Because he started buying the stock in late 2011, long before its multi-year run, Weitz’s cost for all of the shares he bought over the years averaged \$51, leaving him with a total estimated gain, including previous trades, of around 166%. This article [originally appeared HERE](#).

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How Valeant became Canada's hottest stock


[Sean Silcoff](#)

The Globe and Mail

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Nobody expected much of a second act from Biovail Corp. after CEO Eugene Melnyk exited the company for good in 2007, leaving a trail of disgruntled shareholders and litigants in his wake. But just look at it now.

The Canadian drug company has a new name—Valeant Pharmaceuticals International Inc.—a soaring stock price and one of the best-paid CEOs in Canada, Michael Pearson. From out of

nowhere, Pearson has built Valeant into by far the largest publicly traded Canadian-based drug company, sporting a \$20-billion (Canadian) market capitalization. Following a flurry of acquisitions, Valeant is on track to top \$4.4 billion in revenue this year (currency in U.S. dollars unless otherwise noted). And Pearson is just getting warmed up: Valeant sales will top \$10 billion “in the foreseeable future,” he says.



Acquisition

[Video: Valeant buys rights to Visudyne](#)

How did Pearson transform one of corporate Canada’s favourite punching bags into a high-flying investor darling? Part of the explanation is that he has erased the Biovail of old. But he has replaced it with a deal-driven, pseudo-Canadian company that has become too big to ignore—and created a whole new set of concerns for investors to contend with.

It’s enough for a company to have one scandalous entrepreneur in its past; Valeant has two. The company, based in Montreal, is the product of the 2010 merger of Biovail and California-based Valeant. If Canadian investors think there’s no topping Melnyk’s foibles, they clearly haven’t met Milan Panic, the man who founded Valeant’s predecessor company.

Panic’s story is extraordinary: Having been a teenage Nazi-resister during the Second World War, he defected from Communist-era Yugoslavia to the West in 1955 while travelling as a member of his native country’s Olympic cycling team. Five years later, he started a pharmaceutical company in his garage in Orange County with all of \$200. The company, ICN, grew, along with Panic’s wealth and connections. As his homeland was disintegrating in 1992, Serbian president Slobodan Milosevic invited Panic to become prime minister of Yugoslavia; he accepted. “He is a buccaneer, a two-fisted guy...an American success story,” former California governor Jerry Brown, one of several former politicians on ICN’s board, said of Panic (pronounced pah-nich) in 1992.

The fine print on Panic’s biography is less flattering. Thanks to a falling-out with Milosevic, Panic’s political career was over in just six months. And his business legacy is checkered. ICN discovered a new compound, ribavirin, in the 1970s, that to Panic represented the pharmaceutical holy grail—a billion-dollar, blockbuster drug. Panic claimed it would successfully treat a range of serious illnesses, but the U.S. Food and Drug Administration was unconvinced, approving ribavirin in 1985 only to treat a rare respiratory ailment in children. That didn’t stop Panic from declaring in 1987 that ribavirin could slow the progression of AIDS, a claim that regulators flatly

rejected and that resulted in a \$600,000 fine (but no admission of guilt). In 1994, the FDA denied approval to market ribavirin as a stand-alone hepatitis C treatment. ICN didn't pass this news on to shareholders for months—and not until after Panic had sold \$1.24 million worth of stock. The company's poor disclosure netted it a \$5.6-million fine. The FDA did finally approve ribavirin to treat hepatitis C in 1998, but only in combination with another drug.

ICN had better luck abroad: Several countries, starting with Mexico in 1975, approved ribavirin to treat a range of ailments, from the flu to herpes. That led the company to expand globally, including the purchase of 75% of Yugoslavia's largest drug maker in 1991—a deal that tied a significant part of the company's business to the country just in time for its bloody breakup and the economically damaging sanctions that followed. The subsequent Serbian regime, headed by Panic's enemy Milosevic, in early 1999 forcefully seized control of ICN's assets, prompting a drawn-out but ultimately successful lawsuit by Panic.

There were other distractions, including a 1977 settlement with the U.S. Securities and Exchange Commission over allegedly misleading financial forecasts. Most embarrassing, however, was a spate of sexual harassment suits by former female employees against Panic in the 1990s, including one from a former secretary who bore his illegitimate son. ICN's board painted Panic as an innocent victim of extortion bids and loaned him millions of dollars to settle one of at least four lawsuits. To outsiders, it looked like one more perk from a compliant board—like the luxury piers-à-terre and corporate jets at the CEO's disposal.

ICN's chronic underperformance persuaded shareholders they should toss Panic out; after several attempts, they finally succeeded in 2002. “Nutty is probably the right word” to describe the Panic era, says Mason Morfit, a Valeant director whose firm, ValueAct Capital, owns 5.5% of Valeant stock. “It was frightening and entertaining at the same time.”

(Panic, now in his early 80s, is still in the business, heading a biomedical operation he bought from ICN in 2003; he has a young son with his latest wife, an opera singer nearly 40 years his junior.)

With Panic gone, successor Robert O'Leary dismantled much of the company and renamed it Valeant. It focused on developing neurology drugs and branded generics, a strategy that continued after O'Leary, in ailing health, handed the reins to one of his recruits, Tim Tyson, in January, 2005 (O'Leary died less than two years later).

But in the post-Panic regime, Valeant still lost money for five years straight. When Morfit joined the board in 2007, “it was my first peek under the covers as to how much progress we were making,” he says. “It was evident we were not on the right track. In fact, we were going the opposite way.”

As Valeant was struggling to redefine itself, Biovail was heading into its own crisis. Entrepreneur Eugene Melnyk had turned the fledgling company into a success by applying its patented time-release technology to create once-daily formulations of popular drugs that previously had to be taken multiple times a day. Biovail's first hit was Tiazac, an angina treatment approved by the FDA in 1995. It helped make Melnyk a jet-setting billionaire, with racehorses and a spread in Barbados.

But Biovail had many detractors who were suspicious of its accounting and financial performance. A litigious Melnyk battled back, but a traffic accident near Chicago in October, 2003, changed everything. Eight people were killed, and one truckload of Wellbutrin XL pills, Biovail's new one-a-day version of an established antidepressant, was damaged. Melnyk and Biovail claimed that \$10 million to \$20 million worth of pills were involved, affecting quarterly earnings. Shareholders and regulators suspected he was using the tragedy as cover for Biovail's shortcomings. The following year, Biovail admitted that just \$5 million worth of pills were lost, plunging the company into years of regulatory investigations and shareholder lawsuits. By the time the smoke had cleared, Melnyk was gone and Biovail was out more than \$200 million in legal expenses, settlement costs and penalties, net of insurance.

Melnyk fought back against his former company in two largely unsuccessful proxy battles, then sold most of his stake. Biovail moved on. New CEO Bill Wells slashed the dividend and refashioned Biovail as a conventional pharmaceutical firm, developing drugs to treat disorders of the central nervous system. But it was something else Biovail had that would soon lead to a marriage between the houses of Panic and Melnyk.

In 2002, Panic's successor, Robert O'Leary, put in a call to Robert Ingram, a former CEO of pharmaceutical giant Glaxo Wellcome (now GlaxoSmithKline). O'Leary wanted advice: Who should he hire to be his right-hand man to fix ICN? "I said to him... 'You've got a shitty company,'" Ingram recalls. Nevertheless, Ingram recommended a former Glaxo executive, Tim Tyson, who joined ICN in October, 2002.

Before long, Tyson and O'Leary wanted Ingram's help again—as a board member. Ingram was reluctant to join but felt he couldn't let them down. Ingram eventually became chairman of ICN/Valeant.

In 2007, the board felt it was time to call in another outsider to fix Valeant. Ingram again had someone in mind: Mike Pearson, head of the global pharmaceutical practice at consultants McKinsey & Co. He'd hired Pearson for several projects at Glaxo and had been consistently impressed by his insight and his drive to deliver results. Most of all, he appreciated Pearson's "brutal" honesty. "When you're CEO, people want to tell you good news," Ingram says. "Mike would come in and tell me things that other people were reluctant to tell me."

Pearson, a native of London, Ontario, was at the peak of his consulting career. He'd come from a lower-middle-class background—his father was a phone installer—and the family had to make financial sacrifices to send Pearson to prestigious Duke University. Pearson excelled, playing on the hockey team, earning math and engineering degrees and gaining entry into the elite academic Phi Beta Kappa Society. After earning an MBA on full scholarship from the University of Virginia, he joined McKinsey, working his way up the ranks to become a board member and one of its top-paid professionals.

Pearson had never heard of Valeant before Ingram's call, but agreed to a consulting contract in mid-2007. A few weeks later, he delivered his findings. "Your current strategy is not only not working, it doesn't have much of a chance to be successful," he told directors. "And with that," recalls Ingram, "he laid out the strategy we now follow."

Like other smaller pharma companies, Pearson told the board, Valeant was trying to be all things in all regions, stretching itself too thin. It wanted to be like free-spending Big Pharma and develop blockbuster drugs, but had limited resources. Not that the complacent drug giants were great role models: Industry productivity was flatlining as the number of innovative drugs coming to market levelled off. Several blockbuster drugs were approaching the end of their patent protection. Cash-strapped governments were under pressure to curtail rising health-care costs. The industry's best days appeared to be drawing to a close.

Valeant, Pearson said, should focus only on geographical and therapeutic areas that had good long-term growth prospects, and where it wouldn't run into intense competition from Big Pharma. Valeant shouldn't be in Western Europe (low growth) or India or China (too much competition), or any other market where it lacked critical mass, which described the majority of countries where it operated. Despite its past restructuring efforts, Valeant was unwieldy, selling 370 treatments in 2,200 versions via a global supply chain of 85 third-party suppliers.

Pearson saw little potential in Valeant's cardiovascular, infectious disease and gastrointestinal therapies. Instead, he thought the company's medicine cabinet should be full of products like its cache of dermatological treatments. It was a corner of the market where Big Pharma was less prevalent, where there was big demand and no one-size-fits-all solution. Best of all, payers were primarily not governments but motivated consumers and private benefits plans. Valeant would have a brighter future selling acne cream and other drugs that matched its profile than trying to cure cancer.

Pearson's next suggestion was even more daring: Cut research and development spending, the heart of most drug firms, to the bone. "We had a premise that most R&D didn't give good return to shareholders," says Pearson. Instead, the company should favour M&A over R&D, buying established treatments that made enough money to matter, but not enough to attract the interest of Big Pharma or generic drug makers. A drug that sold between \$10 million and \$200 million a year was ideal, and there were a lot of companies working in that range that Valeant could buy, slashing costs with every purchase. As for those promising drugs it had in development, Pearson said, Valeant should strike partnerships with major drug companies that would take them to market, paying Valeant royalties and fees.

The board liked Pearson's prescription; finding management slow to implement it, the board asked Pearson back for an even bigger assignment: to take a deeper dive into the business. This time he brought a team of McKinseyites, who embedded themselves in the operation around the globe, and recruited board members to take an active role in the extensive review.

The more time they spent with their favourite consultant, the more the directors became convinced he should lead the company. Pearson may not come off as polished as CNBC-friendly CEOs—he can be an awkward speaker—but his strengths were evident to directors.

“[His] leadership style wasn't a cult of personality or a force of will—though he's extremely willful—but one where the decision making was going to be based on facts, which was a breath of fresh air,” says Morfit. “He felt like a much better fit for what we needed to do.” (The company amicably parted ways with Tyson.)

Pearson started as CEO at Valeant in February, 2008, and quickly put his plan into action. He sold far-flung operations and focused on the company's business in North America and a handful of overseas markets; slimmed down its portfolio to focus on dermatology and branded generics; and struck an agreement with GlaxoSmithKline to develop and commercialize Valeant's epilepsy drug, retigabine. The R&D budget dropped 11% to \$87 million in 2008, and by another 50% in 2009 (it's now at less than 5% of sales). That fall, Pearson made the first of many acquisitions.

Biovail was in his sights early on. It was about the same size as Valeant (2009 revenues of \$820 million to Valeant's \$830 million), and had a bloated cost structure and a big R&D budget. But it had something else as well: It wasn't based in the United States.

In fact, merging with a non-American drug company—or more precisely, engineering a reverse takeover whereby Valeant would be folded into the foreign entity but retain Pearson and his plan—“was certainly a key part of the strategy,” says Ingram. Freed from the limits of the U.S. taxation regime, a foreign-based Valeant would be able to take advantage of the more flexible and tax-lowering rules in a country like Canada that allowed companies to move their intellectual property and profit centres to low-tax jurisdictions and then repatriate their profits without further taxation. Biovail had practically made an art form out of this practice, using a Barbados-domiciled subsidiary to cut its taxes.

The merger fell apart twice over Biovail's objections to Valeant's terms, but finally came together in June, 2010, with Pearson as CEO and Wells as non-executive chairman. Under a carefully constructed deal, Biovail shareholders got 50.5% of the combined company, while Valeant shareholders got 49.5% and a \$16.77-per-share dividend, making the Canadian company the acquirer. But the company took on Valeant's name, indicating which partner really drove the deal. Wells and other Biovail executives were gone less than three months after the merger closed in September, 2010. The company uprooted the headquarters from Mississauga to Montreal (thanks to Quebec government incentives), but the brain trust largely works out of New Jersey offices near Pearson's home.

It's hard to see what else attracted Pearson to Biovail besides its tax structure. Biovail's key products—neurological treatments including Wellbutrin XL—faced generic competition and

declining sales. Last June, Pearson told investors and analysts the merger “led to a mix of revenue that we did not particularly like.” Even before the merger, “we felt [Biovail] was not making wise investments in research, that its products were not performing nearly as well as people had hoped,” Ingram says. As Valeant has continued to bulk up, its overall share of revenues from its less profitable neurological treatments inherited from Biovail has shrivelled—but its overall cash tax rate has collapsed, to less than 5%. “If it wasn’t for this tax structure, it’s doubtful that Biovail shareholders would have been rescued by Valeant from a future of steadily declining legacy profits,” forensic accounting firm Veritas Investment Research said in a note shortly after the deal closed.

Pearson spends the vast majority of his time on the road (he’s entitled in some cases to fly his family on the corporate jet). So, on a typical day in November, he’s in Denver, telling investors about his latest acquisition, dermatology specialist Medicis Pharmaceutical Corp. Earlier this week, he was in Scottsdale, Arizona, where Medicis is based, putting the finishing touches on the \$2.6-billion purchase, but also scoping out another target, one of between 25 and 50 potential deals he’s eyeing. Asked how many acquisitions he’s done since joining Valeant in 2008, Pearson gruffly replies, “I don’t know, 50, 60, 70, somewhere in that range.” (The official number is 57.)

Pearson takes pride in getting deals done fast. Due diligence happens “very quickly”—Medicis took just 10 days—and he doesn’t use investment bankers (but then again, CFO Howard Schiller formerly ran investment banking at Goldman Sachs). Valeant, Pearson says, pays “low prices” and targets a 20% return on investments. Pearson is against selling stock to finance deals, so he has been tapping eager credit markets instead: Following the Medicis deal, Valeant’s debt is a staggering \$11 billion—up more than threefold from two years ago, amounting to a highly levered 4.2 times earnings before interest, taxes, depreciation and amortization (EBITDA).

Pearson’s strategy means that Valeant is in a state of perpetual change: All that dealmaking is necessarily attended by constant restructuring and shifts in focus. (Online industry bulletin boards are full of anonymous, vitriolic comments about Pearson and the company’s ruthless rationalization of sales and research jobs.) After initially zeroing in on dermatology and generics and the North American market, Valeant has since bought into oral care, podiatry and vision treatment, but its offerings also include sports nutrition products, supplements and cosmetics. The company sells treatments for gum disease and athlete’s foot, as well as over-the-counter Cold-FX. It has expanded into Southeast Asia and South Africa, and has also continued to sell the rights to commercialize drugs in its pipeline. The Medicis deal brings the focus back to dermatology: Medicis’s biggest sellers include acne medicines and wrinkle-reducing injections.

It may be the work of a strategist rather than a maverick entrepreneur, but Valeant is still following the plot line of industry consolidators that grow rapidly on debt—stories that often don’t end well. Even Pearson’s supporters are a bit unnerved. “We believe in the strategy and believe in Mike and have for a long period of time,” says Taymour Tamaddon of T. Rowe Price,

one of Valeant's largest shareholders. "It obviously gets harder as you get bigger and that's not lost on anyone."

One knock against acquisition machines is that with so many moving parts, it's difficult to determine their true profitability, as Moody's Investors Service cautioned about Valeant last September. "It's very hard to see the earnings power of the underlying business," says Dimitry Khmelnitsky, an analyst with Veritas. Adds Tamaddon: "It's definitely the hardest company that I follow to model."

To guide investors, Valeant has fashioned three customized measurements: organic growth, adjusted cash flow from operations and cash earnings per share. As with any non-GAAP measure, however, Valeant's metrics are subjective—even problematic, says Khmelnitsky. For example, the company has changed the way it reports organic growth—that is, growth from its existing business rather than acquisitions—three times in the past two years, after investors asked how sales were faring both for products it had been selling for more than a year and its newly acquired products. But Khmelnitsky did his own calculations to determine organic growth. He excluded all acquisitions unless they had been part of the Valeant portfolio for at least a year. The result only tallied to 6% for the fourth quarter of fiscal 2011, not the 10% management reported (and just 4% in the first quarter of 2012, not 11%). "Valeant's organic revenue growth disclosures thus far have been piecemeal, inconsistent and confusing," Khmelnitsky wrote in a research note last July. (He says the company's disclosure has since improved.)

Tamaddon sees things slightly differently: While he wasn't happy with the original organic growth calculations, "to [Pearson's] credit, now we get both definitions, every quarter. Most companies I know of would have told me to go pound sand" rather than broaden disclosure, he says.

The problem with Valeant's adjusted cash flow and earnings numbers, says Khmelnitsky, is that they selectively include items that improve those measures "but don't count items that reduce [them]." For example, the company has counted one-time investment and acquisition gains in its calculations while excluding acquisition-related costs or losses on divestitures. It includes the tax benefits when employees exercise stock options, but excludes related dilution costs and withholding taxes paid. The way Valeant accounts for licensing agreements has had the effect of increasing revenues without recording related costs, Khmelnitsky says. In the first quarter of 2012, the company reported cash earnings per share of \$1.14, which was 17 cents ahead of analyst estimates. But when Khmelnitsky adjusted the numbers for one-time foreign exchange and divestiture gains and royalty payments to a foreign company, he came up with cash EPS that was 16 cents below analyst estimates.

There are other issues. After stating in a 2011 annual report that results "historically...have not been materially impacted" by seasonality, Pearson told an investor conference last June "we are a seasonal company and if you just take our guidance and divide it by four...it does not reflect what our underlying business works at." In fact, Khmelnitsky notes that Valeant made 60% of its cash earnings in the second half of the year—and that there was a more than 30% drop from the fourth quarter of 2011 to the first quarter of 2012.

There is also confusion about Valeant's dermatology drug Zovirax. Prescription data collected by research firm IMS suggests its sales declined in the third quarter of 2012 on a year-to-year basis; the company reported they increased sharply. Pearson's explanation: The data doesn't cover all channels, such as Walmart. Meanwhile, Bank of America/Merrill Lynch analyst Gregg Gilbert warned in a recent note that Valeant's dermatological organic sales growth resulted from sharp price increases, which "we don't see...as sustainable." In addition, 20% of revenues are from drugs that could face generic rivals within the next decade, Gilbert estimated.

Pearson and his team haven't bristled at the questions but instead have invited an open discussion about their numbers, unlike other companies that have threatened lawsuits in response to Veritas's criticisms. Valeant has even changed some accounting practices to assuage critics. "We know that we're a complicated story," CFO Schiller acknowledged to investors last June.

Pearson says, "We feel very, very comfortable with our accounting. In fact, we're probably more conservative than many other companies." Valeant's disclosures, he says, go well beyond its peers. Investors are free to do their own calculations based on the information the company provides, he says. But that's something even large investors struggle with, and is likely beyond most retail investors.

Even if Pearson can neutralize the accounting debate, however, the question persists—how long can he keep up the acquisitions? "Maybe the most legitimate question of our strategy is, 'How long is the runway? How many opportunities are out there?'" says Ingram. "I can tell you globally there are so many small and mid-sized companies that can benefit from this strategy—as long as you can execute it."

Pearson notes that Valeant revenues are now roughly eight times larger than when he joined the firm five years ago, once one accounts for divestitures. Does he think it can grow by another eight times in the next five years? "We probably won't," he says. "But we're certainly going to try to."

PEARSON'S TAKEOFF: FROM LOW-PROFILE CONSULTANT TO ONE OF CANADA'S BEST-PAID CEOS

Valeant Pharmaceuticals International Inc. chairman and CEO Michael Pearson was one of the most richly rewarded executives of a Canadian-listed company in 2011, earning compensation valued at \$36.7 million (all currency in U.S. dollars). He has also accumulated a pile of equity, bringing the value of his stake at the end of January to a stunning \$300 million after just five years—not including the additional \$200 million worth of unrealized pretax gains from his fully vested stock options.

This doesn't seem to bother shareholders. In fact, one of the company's largest investors designed Pearson's pay plan, and he says it's doing what it's supposed to do: richly rewarding the CEO when shareholders do well—but denying him if they don't.

Pearson is paid \$1.75 million in base salary, but it's the long-term incentives that really count. Factoring out dividends related to Valeant's merger with Biovail Corp. in 2010, Pearson earned \$23 million in 2011.

Of that, 80% was in the form of stock or option rewards, whereas the median for S&P 500 CEOs is about 50%. That, says Steven Kaplan of the University of Chicago's Booth School of Business, keeps Pearson's interests aligned with those of shareholders. "If the stock goes up, he does well, and if the stock goes down, he does much less well."

The key feature of Pearson's pay package is a grant of 120,000 "performance share units," which turn into common shares when they vest. But they only vest if Pearson delivers a 15% compound annual return over three years. If he doesn't, the PSUs are worthless. If he delivers 30%, he'll get twice the original allotment of PSUs. At 45%, he gets three times, and at 60%, four times. "Everybody told me and him we were crazy to do that, because it's such a high bar in an era when stocks aren't performing," says director Mason Morfit, former chairman of the board's compensation committee, and the main architect of the pay plan. "Most people would prefer to take the risk out of their compensation plan."

Pearson is contractually bound to hold on to the vesting equity until the end of his term as CEO. That is supposed to deter him from making short-term moves to goose the stock: But, of course, it does nothing to protect shareholders if the company's high-risk, debt-fuelled growth strategy hits turbulence.

It's an approach that makes Pearson more like the boss of a firm owned by private equity, not public investors: Private-equity investors like their CEOs to have skin in the game (Pearson bought \$5 million worth of Valeant stock when he joined in 2008) and their backs to the wall, working hard to create value and getting rich if they do.

Other boards are "curious and intrigued" by Valeant's approach, says Canadian compensation adviser Georges Soaré. But, he adds, "I haven't seen too many that have an appetite to go down this road."

Will Ackman's 'Bear Stearns Moment' Trigger A Liquidation Of His Valeant Stake?

Nov. 6, 2015 5:28 AM ET | [39 comments](#) | About: [Valeant Pharmaceuticals International, Inc. \(VRX\)](#)

Disclosure: I am/we are short VRX. ([More...](#))

Summary

Shares of Valeant are off nearly 50% since Citron's short article in late October.

While institutions appear to be bailing on VRX, Pershing Square's Bill Ackman is reportedly down \$2B on his stake.

Market chatter suggests investors are battering Pershing Square's largest holdings, which could force Ackman to liquidate his VRX stake.

Such predatory behavior is reminiscent of the "run on the bank" Bear Stearns experienced in 2008 amid billions in MBS losses.

If Ackman liquidates his VRX stake, the stock could fall further. Avoid VRX.



Bill Ackman. Source: wsj.com

Shares of Valeant Pharmaceuticals (NYSE:[VRX](#)) are off nearly 50% since Citron Research wrote its [scathing report](#) about potential channel stuffing at Philidor, Valeant's former specialty pharmacy. It is difficult to believe that the rout in the stock has not included large selling by institutions. Jana Partners reportedly exited its position in September after rumors of price gouging by Turing Pharmaceuticals reached the government's attention. However, Bill Ackman's Pershing Square ([OTCPK:PSHZF](#)) has reportedly [lost about](#) \$2 billion on its VRX stake, and

counting. There are two schools of thought pursuant to how large losses in VRX could impact Ackman:

Ackman Could Be Forced To Liquidate Other Holdings To Offset VRX Losses

Zero Hedge [warned](#) investors that as Ackman's losses in VRX grew, he might liquidate other large holdings in Pershing Square; the thesis was to exit those holdings in advance of large volume selling by Ackman or others. The following chart highlights Pershing Square's large holdings:

Security	Ticker	Source	Position	Pos Chg	% Out	Mkt Val ↓
VALEANT PHARMACEUTICALS INTE	VRX US	13F	19,473,933	0	5.71	2.86BLN
AIR PRODUCTS & CHEMICALS INC	APD US	13F	20,549,076	0	9.56	2.82BLN
CANADIAN PACIFIC RAILWAY LTD	CP CH	SEDI	13,940,890	0	8.98	2.11BLN
HONDELEZ INTERNATIONAL INC-A	HDLZ US	13D	43,366,342	+37.9MLN	2.69	1.98BLN
ZOETIS INC	ZTS US	Form 4	41,823,145	0	8.38	1.80BLN
RESTAURANT BRANDS INTERN	QSR US	13F	38,003,984	0	18.78	1.44BLN
PLATFORM SPECIALTY PRODUCTS	PAH US	Form 4	42,737,394	0	20.27	523.11MLN
NOMAD FOODS LTD	NHL LN	RNS-HAJ	33,333,334	0	19.60	516.67MLN
HOWARD HUGHES CORP/THE	HHC US	13F	3,568,017	0	8.98	460.17MLN
FANNIE MAE	FMMA US	13D	115,569,796	0	2.01	271.59MLN
FREDDIE MAC	FMCC US	13D	63,575,565	+69,872	1.97	147.50MLN
ALPINE GLOBAL PREMIER PROPER	AWP US	Proxy	5,187,197	0	6.04	32.01MLN
ALLERGAN PLC	AGN US	13F	0	-1.35MLN	.00	.00

Source: [zerohedge.com](#)

Investors Are Battering Ackman's Holdings To Force A Liquidation Of VRX Shares

Another thesis is that investors are battering Ackman's portfolio; they are purposely pushing up his short positions and selling off long positions. Losses in other parts of his portfolio may force Ackman to liquidate his VRX positions, creating a potential windfall for VRX shorts. Market chatter seems to support that thesis:

[From Julie Hyman](#) of Bloomberg TV:

"Herbalife is rallying because the market can't inflict enough pain on Ackman."

[Michele Celarier](#) of the New York Post:

"And now the Ackman haters once again say his fund will go under. Keep trying. Most of his investors still love him."

From @layee on [Stocktwits.com](https://stocktwits.com)

"[\\$VRX](#) It looks like this would pop up when Ackman sold his position. Wall Street is trading against all his positions."

Such market chatter also seems to be supported by hard data. On Thursday, the S&P 500 (NYSEARCA:[SPY](#)) was flat. However, over half of Pershing Square's 13 largest holdings declined:



VRX was the biggest decliner having fallen about 14%. Only two of those large holdings appreciated - Allergan (NYSE:[AGN](#)) and Nomad ([OTCPK:NOMHF](#)). Coincidentally, Herbalife (NYSE:[HLF](#)), which Ackman has publicly excoriated for over a year, was up nearly 3%.

Will Ackman's "Bear Stearns" Moment Force His Hand?

The market chatter and price action of Pershing Square's large holdings are reminiscent of Bear Stearns' last days. In the second half of its FY 2007, Bear Stearns recorded mark-downs of \$2.6 billion on its mortgage-backed securities (MBS) portfolio. According to the book, *Shock Exchange: How Inner-City Kids From Brooklyn Predicted The Great Recession And the Pain Ahead*, MBS losses and predatory behavior by hedge funds and brokerages led to a run on the bank:

"In the third quarter of 2007 the mortgage market cratered. In response, the Street slashed its mortgage portfolios, further driving down prices. Internally, Bear was torn about slashing its portfolio because ((i)) the market for some securities was totally illiquid and almost worthless and ((ii)) for other securities, Bear would have to incur losses of tens of billions of dollars ..."

"By early March 2008, rumors circulating the Street were that Bear was strapped for cash, creating a "run on the bank." In a period of one week, clients and short-term lenders pulled out over \$18 billion of capital and brokerages and hedge funds refused to trade with the firm. Other short-term lenders followed ... The company received emergency funding from the Federal Reserve for a period of 28 days, just enough time to agree to a sale to JPMorgan Chase. The transaction structure included JPMorgan Chase buying the stock for \$2/share when it had been as high as \$131/share a month earlier."

Despite conference calls and presentations by both Valeant and Ackman, VRX is down nearly 50% since the Citron report. While institutions appear to be slashing their VRX holdings, Ackman appears to have held his position - akin to Bear Stearns and its MBS holdings in Q3 2007. In my opinion, Ackman's veil of being the "smart money" has been pierced - the smart money got out in September.

Lastly, the situation could worsen. In search of [price gouging](#), the Senate Special Committee on Aging has already requested information from Valeant, and is prepared to hold a hearing early next month. The potential loss of Philidor's contribution to revenue and EBITDA is expected to be about 7% -- that's optimistic. Potential [regulatory and legal risks](#) referred to by S&P in its recent debt downgrade are practically unquantifiable at this juncture. Lastly, the narrative will likely turn to the \$31 billion in debt (already at junk levels) that Valeant will have to repay amid shrinking cash flow.

Ackman is down on his VRX position and Wall Street knows it - just like Bear Stearns and its MBS holdings in Q1 2008. The smart play is to: [i] short VRX; [ii] continue to batter Pershing Square's other positions; and [iii] wait for Ackman to capitulate and dump his VRX stake. Who wants to be long VRX with the potential for large institutional selling on the other side?

Conclusion

Valeant's business model has come under fire at an inopportune time. **The company has amassed \$31 billion in debt that will be difficult to repay amid shrinking cash flow.** There does not appear to be many buyers willing to lend support to VRX. During its wind-down, Bear Stearns' shares went from \$131 to \$2 in a month's time. How low will VRX go? Bill Ackman's ***"Bear Stearns moment"*** has arrived. I am short the stock.

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Brave Warrior Capital

The drubbing in Valeant Pharmaceuticals International Inc. is the result of a **short seller's false claims going unchallenged in the press,** according to a hedge-fund manager with one of the largest stakes in the company.

Glenn Greenberg, who oversees more than \$3 billion at Brave Warrior Advisors LLC, said he'd add to his stake in the drugmaker today if it wasn't already so big.

As the fifth biggest hedge-fund owner of Valeant, those shares now account for about 21 percent of Greenberg's fund, data compiled by Bloomberg show. The value of that stake has tumbled \$650 million since August.

The media has "conducted a witch hunt," the 68-year-old investor said in a telephone interview. **"You don't assume innocence, you assume guilt, sticking darts in the accused, in someone that breaks social norms, and this is a way of driving them out."**



Brave Warrior's Big Valeant Stake, as of June 30

Greenberg, whose fund started buying Laval, Quebec-based Valeant more than four years ago at prices that are about a quarter of its level now, joins a growing list of high-profile investors who have come to the company's defense.

William Ackman, the founder of Pershing Square Capital management, held a four-hour conference call on Friday in which he blamed the stock's plunge in part on bad public relations.

Greenberg, who has about four decades of investment experience, focused on allegations made last week by short seller Andrew Left of Citron Research. The firm accused the company of inflating sales using specialty pharmacies such as Philidor RX Services.

Unintended Consequences

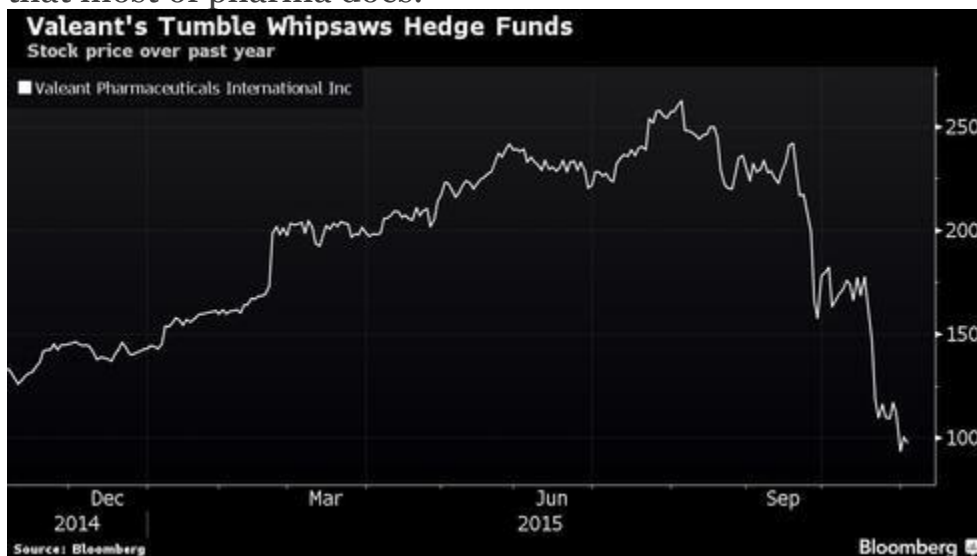
Shares of Valeant, which terminated its relationship with Philidor, have declined 33 percent since Left publicized his claims on Oct. 21. In a telephone

interview with Bloomberg Wednesday, he said the market reaction speaks for itself.

“If the company is that weak that I can bring it down then it shouldn’t have been that high,” Left said. “A short can’t bring a company down. If the information you put out isn’t true, I don’t care who’s on the other side, it’s not going to come down.”

Echoing a point raised in Ackman’s conference call, Greenberg said Valeant executives such as Michael Pearson, its chief executive officer, **are paying a price for a focus on keeping costs low and boosting profits.**

“Mike Pearson believes in a lean shop and in getting results,” he said. “He believes in doing things rationally and efficiently. He thought, why do I need public relations or government relations -- I’m going to do stuff that’s smart, legal, and I want resources on generating earnings, not the usual horse sh*t that most of pharma does.”



Valeant’s tumble has spurred billions of dollars in losses for hedge funds that before August had ridden the shares to some of the biggest gains of the North American bull market. Thirty-two counted it among their top 10 holdings at

the end of the second quarter, according to an Aug. 19 report by Goldman Sachs Group Inc.

Paper Losses

Valeant's biggest shareholder, a New York-based investment firm Ruane Cunniff & Goldfarb Inc., defended its investment in a letter to shareholders last week.

Valeant was at \$99 a share on pre-market trading on Wednesday. As recently as Aug. 5 it was trading above \$260. While steps such as hiring a former deputy U.S. attorney general to advise a committee investigating its business practices will help, **Greenberg said the damage to Valeant's reputation has already been done and repairing it will be a slow process.**

Brave Warrior owned about 5.7 million shares at the end of June, which accounted for as much as 37 percent of his fund at the time, data compiled by Bloomberg show. That's a higher proportion of assets than either Ruane Cunniff or Pershing Square.

"It can never go back in the bottle," he said. "No matter what happens here it will take a lot of time. The company will have to show if they did something wrong, they're cleaning it up and taking responsibility, showing that the business model does not depend on Philidor, and they can arrange other pharmacy distribution relationships. Time will have to go by."