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# EDITED TRANSCRIPT

## VRX.TO - VALEANT PHARMACEUTICALS 2012 GUIDANCE CALL

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### OVERVIEW:

Co. expects 2012 revenue to be \$3.1-3.4b and cash EPS to be \$3.95-4.20.



## CORPORATE PARTICIPANTS

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**J. Michael Pearson** *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

**Rajiv De Silva** *Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO*

**Howard Schiller** *Valeant Pharmaceuticals International, Inc. - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Louise Chen** *Collins Stewart - Analyst*

**Tim Chiang** *CRT Capital Group - Analyst*

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**Graham Tanaka** *Tanaka Capital - Analyst*

**Henry Reukauf** *Deutsche Bank - Analyst*

## PRESENTATION

### Operator

Good morning. My name is Katie and I will be your conference operator today. At this time I would like to welcome everyone to the Valeant Pharmaceuticals 2012 guidance conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Laurie Little, head of Investor Relations, you may begin your conference.

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**Laurie Little** - *Valeant Pharmaceuticals International, Inc. - VP IR*

Thanks, Katie. Good morning, everyone, and welcome to Valeant's 2012 guidance conference call. Joining us on the call today are J. Michael Pearson, Chairman and Chief Executive Officer; Rajiv De Silva, President and Chief Operating Officer of Specialty Pharmaceuticals; and Howard Schiller, our new Chief Financial Officer.



In addition to a live webcast, a copy of today's slide presentation can be found on our website under the Investor Relations section, as well in the 8-K that was just filed.

Before we begin, certain statements made in this presentation may constitute forward-looking statements. Please see slide 1 for important information regarding these forward-looking statements and associated risks and uncertainties.

Readers are cautioned not to place undue reliance on any of these forward-looking statements. The Company 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.

In addition, this presentation contains non-GAAP financial measures. For more information about non-GAAP financial measures, please refer to slide 1. The Company has provided preliminary results and guidance with respect to cash earnings per share, adjusted cash flow from operations, and organic product growth rates, which are non-GAAP financial measures. The Company has not provided a reconciliation of these preliminary and forward-looking non-GAAP financial measures due to the difficulty in forecasting and quantifying the exact amount of the items excluded from the non-GAAP financial measures that will be included in the comparable GAAP financial measures.

Finally, the financial guidance in this presentation is effective only as of today, January 6. It is our policy to update our affirmed guidance only through broadly disseminated public disclosure.

And with that, I would like to turn the call over to Mike Pearson.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Thank you, Laurie. Good morning to everyone and thank you for joining us. Before we get going I would like to welcome Howard Schiller, Valeant's new CFO. Howard joined us in December after a distinguished career at Goldman Sachs, and I know his expertise and knowledge will be an extremely valuable addition to the Valeant team.

I would also like to thank Phil Loberg for his diligence in serving as Valeant's interim CFO over this past year. Phil will be relocating to Brazil, where he will serve as our CFO for our Latin American region going forward.

On today's call I would like to first provide a brief look at our accomplishments in 2011; second, present our expectations for 2012 both operationally and financially; and finally, briefly discuss a few remaining financial and operational updates. We are pleased to be able to start off the new year discussing Valeant's expectations for 2012, but before we focus on this year we wanted to take just a few minutes to reflect on the year we just concluded.

2011 was another important step on our journey to transform ourselves into a unique growth-based specialty pharmaceutical company. We saw strong growth both through acquisitions and through organic growth, and made several management appointments to upgrade our management team and to deliver strong shareholder value to our investors. Let me quickly summarize our accomplishments last year.

We completed 11 separate company and product acquisitions in 2011, most notably PharmaSwiss, Sanitas, Ortho Dermatologics, Dermik, iNova, Zovirax, and Xerese and Elidel. We paid an average of approximately 2.4 times sales for these acquisitions, or a total purchase price of \$2.9 billion.

Through these acquisitions we were able to broaden our reach in Central and Eastern Europe, bolster our presence in the US dermatology market, and expand our international footprint into Southeast Asia, South Africa, and Russia. We view our entry into the markets of Russia, Southeast Asia, and South Africa as exciting new growth platforms and we are eager to explore these new opportunities.

Second, although Valeant clearly spends less R&D dollars than similarly sized companies, we are very pleased with our R&D's team productivity in 2011. We received approval for Potiga in the US and Trobalt in Europe, and we completed two positive Phase III trials for our onychomycosis compound through our Dow organization.



In Canada, we had four products approved, and we launched over 10 new products in 2011 in Canada. In our emerging markets, we launched over 100 products, over 80 in Europe and over 20 products in Latin America.

Third, we also worked steadily on our balance sheet in 2011 in five distinct areas. First, we reduced our average interest rate from roughly 7% at the beginning of the year to approximately 5.7% by year-end. We repurchased 16 million shares at an average cost of approximately \$40 per share under our previous \$1.8 billion securities repurchase program. We have also purchased an additional 1.5 million common shares at an average cost of \$42 in the fourth quarter of 2011 under our new \$1.5 billion securities repurchase program.

We purchased \$100 million face value of our high-yield debt at below par. Post-merger, we have purchased over [\$330] million face value of the legacy Biovail convertible notes, nearly eliminating this instrument. Finally, we raised \$4.65 billion in new debt this year, which along with our cash flow from operations allowed us to fund our acquisition strategy.

To round out our discussion of 2011, I would like to briefly touch on our results for the fourth quarter. As we mentioned on our last conference call, currency continued to be a headwind for us in the fourth quarter. The total impact on the fourth quarter will be approximately \$40 million on the top line, which translates to approximately \$0.05 impact to the bottom line -- obviously, both negative.

While we are unable to control the fluctuations in foreign exchange rates, our international operations are naturally hedged to a large degree, with all of our revenues and the majority of our costs managed in local currency. Foreign exchange movements will be a bigger impact on our top line than it will be on our bottom line for this reason.

That being said, we still expect the fourth-quarter revenues will come and north of \$650 million, with organic growth greater than 8%, and cash EPS will be in the range of \$0.83 to \$0.87. Adjusted cash flow from operations should be greater than \$230 million in the fourth quarter, excluding working capital adjustments and restructuring, which we have not yet factored in.

For the full year, we expect to hit our pro forma organic product sales growth rate of 8% with total product sales growth at about 27%. Total revenue including royalties, milestones, and service revenue also increased about 27% on a pro forma basis over 2010. We also expect to achieve an approximately 39% increase in adjusted cash flow from operations on a pro forma basis over 2010.

Now, turning to 2012. Our guidance for 2012 includes all recently closed deals, financing, and one expected milestone payment, the \$45 million milestone we will receive from Glaxo this year when Potiga is launched in the US. It does not include any one-time items such as potential divestitures, investment gains, or currency fluctuations, or any business development activity that has not yet closed.

We currently expect that our revenue for 2012 will be in the range of \$3.1 billion to \$3.4 billion, an increase of over 30% from 2011. This range assumes exchange rates throughout 2012 are comparable to the current rates at the end of 2011.

Our cash EPS guidance for 2012 is in the range of \$3.95 to \$4.20, or an increase greater than 40% over 2011. Cash flow from operations is expected to exceed \$1.2 billion in 2012, an increase of \$300 million or approximately 33% over 2011. This expected cash flow includes the negative impact of approximately \$200 million from our required divestitures and certain generic entrants, which would be more than offset by acquisitions which are not in the plan yet and organic growth.

This brings us to organic growth. We have concluded that -- we have conducted discussions internally as well as with many of our shareholders as to whether we should or not provide organic growth guidance each year. Our 8% annual organic growth objective for 2011, as well as our long-term internal 10% organic growth aspiration, are just two metrics that we use to measure our business.

We have decided that we will continue to report our organic growth each quarter so that everyone can continue to use this as one metric to measure our progress. However, we will not include an organic growth rate for our Company in our guidance for 2012.

While organic growth is a very important metric to the overall health of the Company, we do not manage our business to achieve a certain organic growth rate on a quarterly basis. Strong organic growth remains a top priority for each of our general managers, but they are not incentivized to

get a certain organic growth number each quarter. They are incentivized to achieve top-line and bottom-line results on an annual and longer-term basis.

Our primary focus is to increase cash and cash flow, and deliver total cash returns for our shareholders. We put each of our businesses and our acquisitions through a rigorous internal rate of return analysis, and at any time they do not meet these objectives we will consider divesting the business and/or passing on the acquisition.

The biggest difficulty of a singular focus on organic top-line growth is a function of the different types of acquisitions we make. While many of our acquisitions are focused on building a long-term sustainable growth profile in the business unit -- such as Sanitas, iNova, and PharmaSwiss -- other transactions offer even more attractive short-term returns but may be dilutive to our organic growth rate over the medium term. This type of acquisition -- for example, Dermik -- could slow organic growth in the midterm but should deliver tremendous shareholder value that we would be foolish to pass up in the name of driving organic growth.

Finally, we are committed to growing faster than each of the markets that we operate in, and we will continue to manage our operations and products for maximum growth. We expect the growth drivers in certain businesses will make up for the expected decline certain products will face in the future.

So, while we have determined that we will not give guidance on this metric, we will continue to report organic growth for each of our businesses and in total each quarter. That said, for 2012 we certainly expect to deliver solid positive organic growth in 2012.

With our recent acquisition of iNova and the expansion into Southeast Asia and South Africa, we have begun to manage our businesses differently, necessitating a realignment of our segments in 2012. We will now report four of our segments in the same manner as we reported five before. We have combined our branded generic businesses in Europe and Latin America into one Emerging Markets segment that will also include the operations in Southeast Asia and South Africa. Acknowledging that this segment will be rather large, we will continue to break out Latin America, Europe, and Southeast Asia/South Africa in our segment analysis and our press tables.

Turning to U.S. Dermatology, our U.S. Dermatology segment next year is expected to have revenue between \$900 million and \$950 million. This is an increase of -- 60% to 75% over 2011. This includes our newly acquired assets from Dermik and Ortho as well as significant organic growth in the products that we currently own.

We have listed our growth products that will have promotional efforts behind them. We plan to have over 275 representatives detailing our therapeutic dermatology, aesthetics, and consumer dermatology products.

We also have a robust R&D pipeline that continues to turn out successful projects. We announced that we had positive Phase III results from IDP-108, and we hope to be in a position to provide more details at a later date. We also have several other interesting projects that are continuing, including an oral acne compound, a psoriasis compound, and multiple lifecycle management projects.

We closed both the Ortho and Dermik acquisitions in late December, and all management decisions have already been communicated within the organization.

Finally, our U.S. Dermatology's strategic objectives for 2012 is to successfully make the transition from the old Valeant infrastructure to the integration of a new Valeant Dermatology group and a Valeant Aesthetics group.

U.S. Neurology & Other will continue to be managed for cash, and our expectations for 2012 is that this portfolio will decline approximately 5% to 15% over 2011 and revenue should be in the range of \$675 million to \$750 million. Our expectations for 2012 are that this segment will represent less than 20% of total 2012 revenue. In particular, Wellbutrin XL should be less than 4% of total revenues in 2012.



Although Wellbutrin, Xenazine, and legacy Valeant tail products remain the largest products in these segments, we are excited to see the entry of Potiga and Trobalt into the market and believe these compounds offer a unique growth opportunity. We hope to begin to maximize their potential in 2012. Managing this segment to maximize our cash flows remains a key priority in 2012.

Turning to Canada, we expect revenue for 2012 will be in the range of \$350 million to \$375 million, or a 40% to 50% increase over 2011. Included in our 2012 expectations is that we should begin to further realize profits from our joint venture with Meda for a portfolio consisting of Onsolis and Sublinox. While we do not book the revenues for these profits, we will book 50% of the profits.

Our key products are still Cesamet, Wellbutrin XL, and Tiazac XC; but we also have high expectations for Sublinox and [Lotosal], which we expect to launch in the first quarter, and COLD-FX, which we just acquired from the Afexa transaction.

We are also very excited about the potential regulatory approval for Opana in 2012. These compounds have achieved significant success in the US market, and we are excited about their potential for Canada.

As in past years, we remain vigilant about a potential generic entry for Cesamet due to recent noise in the market. Key agenda items for 2012 include the continuation of our licensing deals for new products, which will lead us to successfully build a new generation of products through new product launches.

Australia and New Zealand. Australia and New Zealand will continue -- will include the Australian operations from iNova, and we expect revenue in 2012 to be in the range of \$200 million to \$250 million, representing a very significant increase over 2011. With the addition of iNova, we now have a diversified product portfolio in Australia that more closely mirrors the rest of our markets.

The OTC business has leading pharmacy presence in cold and cough, therapeutic skin line, and sun care, which will balance out the seasonal nature of each business. We also picked up a prescription business with a well-regarded salesforce and a substantial presence in the weight-loss arena.

We expect to continue to ramp up our efforts to create new line extensions for our OTC products and hope to see regulatory approval of a few Rx brands as well. Our key expectations for 2012 is to successfully integrate iNova and the Valeant operations in Australia.

Our new Emerging Markets segment should see revenue of over \$1 billion in 2012. As we saw in 2011, especially in the latter part of the year, currency swings can be quite volatile; so we are not as comfortable providing a tighter range of guidance at this time from a revenue standpoint.

As I mentioned previously, our key markets will be Central and Eastern Europe, Latin America, and Southeast Asia and South Africa. In Central and Eastern Europe we expect revenues to be greater than \$625 million in 2012, an increase of 30%-plus over 2011. We are currently in 22 different countries with both our own products and a solid representation business in many of our markets.

Five to six countries including Poland, Serbia, Hungary, Czech, and Russia/Ukraine represent approximately 80% of the revenue from the region. We view the Russian/Ukraine market as well as our export business into the former CIS countries such as Kazakhstan, while small now, as a huge new growth opportunity in Europe.

As for our expectations in 2012, we have over 250 product launches planned for 2012 in these regions, representing 10 to 14 launches in each country. We are also focusing our efforts on achieving the cost synergies from our recent acquisitions.

We expect our revenue in Latin America to be greater than \$275 million in 2012, representing an increase of 10% to 15% over 2011. We now have full product coverage in the markets including OTC, branded generics, and similares.

Latin America is currently a strong target market for future acquisitions. We have looked at many opportunities in the region, but we commit to remaining disciplined in our approach.



Finally, our newly acquired operations in Asia and South Africa should deliver approximately \$100 million of revenue in 2012. The business is a mix between owned operations and a distribution business.

We currently operate in five territories -- Malaysia, Philippines, Thailand, Hong Kong, and South Africa -- and have distribution businesses in Viet Nam, Indonesia, and Singapore. This business is a blend between branded products, branded generics, and OTC.

The iNova operations are already well run, and their management team will remain with Valeant to continue to run these operations. Our expectations for 2012 will be to establish operations in other Southeast Asian markets and launch Valeant products into these territories. We also expect to devote resources in this region to aggressively pursue other business development opportunities.

As a wrap-up to our call I would like to briefly mention several other activities that are ongoing at Valeant. First, on Trobalt and Potiga.

As I mentioned previously, Trobalt was approved and launched in Europe in 2011. We are now selling in approximately 12 countries and we received nice recommendation recently in terms of pricing. These are still early days in this process, with less than six months of data available in most of these countries; but we remain optimistic about GSK's progress.

In the US, Potiga was approved this past June and finally received DEA scheduling in November. We are currently planning for the kickoff launch meeting in March and the rollout to begin in April. The \$45 million milestone will most probably be recorded in the second quarter of 2012. As for our extended-release formulation, a lead candidate has been identified for progression into clinical evaluation.

Our cost synergy program slated for 2012 will include the integration of PharmaSwiss and Sanitas in Europe, Ortho and Dermik in the US, iNova in Australia, and Afexa in Canada. As you can see on the slide, we anticipate realizing \$75 million in cost savings in Europe, \$85 million in cost savings in U.S. Dermatology, \$25 million in Australia, and another \$15 million in Canada, bringing the grand total to approximately \$200 million in total cost synergies next year. We expect the synergy capture will ramp up over the year, reaching the total synergy run rate by midyear 2012.

Currency. As we mentioned several times, the currency headwinds have impacted Valeant in 2011 to the negative. In the fourth quarter specifically, this will translate into approximately a \$40 million hit to top line and a \$0.05 hit to the cash EPS when compared to originally forecasted rates. In 2012, the currency may end up helping or hurting us, but it will certainly have an impact on our results.

In terms of our debt structure, we just provided this slide to give you clarity in terms of what our current debt positions are and what the required payoffs will be next year. Specifically for modeling purposes, we will be spending approximately \$100 million in interest expense that will be shown in the P&L each quarter. And for 2012 we will pay off or amortize at minimum 10% of the term loan A in terms of the annual payment.

In terms of ISTA, we have no new major announcement to make on our offer to acquire ISTA. We believe that we have made a solid offer and provide a solid starting point with our proposed \$6.50 per share, and we have conveyed to the Company that we might be willing to move higher should we be able to perform appropriate due diligence. We hope that under the strategic options that ISTA is undertaking we will have the opportunity to engage in discussions with the company in the coming weeks.

Finally, I would like to go over our 2012 strategic initiatives. As has been our past practice, we set out strategic goals for the Company so that all of our employees and business units are aligned with corporate objectives. These are stretch goals, not guidance; and although we might not achieve them in the year that we originally set them out, so far we have managed to complete them at least over the next two years of any prior strategic guidance that we have given. The goals for 2012 are laid out on the slide.

Before we take questions I would like to extend my thanks and gratitude to all of our investors who have stuck through us through a challenging 2011. Your loyalty and support motivate us to continue to work hard to continue to deliver shareholder value both in the short and longer term. We look forward to delivering another strong year in 2012.

With that, we will now open up the call to questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Louise Chen, Collins Stewart.

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### Louise Chen - Collins Stewart - Analyst

First question I had was basically you had mentioned that your primary focus was total cash returns to shareholders. Can you elaborate more on where or how we will see that?

Then the second question I had was, when do you expect sales to stabilize for your U.S. Neurology business? Thanks.

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### J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

In terms of the cash returns for shareholders, I think there's a number of ways investors should monitor our progress. The first is the cash we generate each year, the free cash flow, the cash we are generating, which is the sum of our organic growth and the synergies and acquisitions we are making.

Obviously, it is offset by the interest expense; but since we use debt to finance acquisitions, there is no dilution from an equity standpoint. So, the first metric one should look at is -- are we increasing the cash flow from operations each year in line with expectations, given the capital we are deploying?

So, the first key is delivering the cash. The second is -- what do we do with it?

Really we spend our cash on two things. One is acquisitions. So in acquisitions you should be looking at our average price that we are paying for acquisitions.

And then once a year, we give an update on how our acquisitions are doing, both in terms of top-line growth and cash flow generation. At our last earnings call we went through that, and I think we were roughly 17%, 18% across all our acquisitions in terms of top-line growth of acquired businesses. So that is organic growth. And we were ahead in terms of the cash flow generation based on our original models, where we have a hurdle rate on average that exceeds 20%.

So I think that is the way, if I were an investor, I would think about how we are doing in terms of returns on investment.

In terms on Neuro & Other, I think a lot of -- in terms of when will it stop declining, it has a lot to do with how successful Trobalt and Potiga are, which we still believe could be a substantial product both in Europe and the US. It also is dependent on business development. And it depends on decline rates like Wellbutrin XL and some of the other partnered generic products.

So, again our expectations for 2012 is a decline rate of between 5% and 15%. I don't think we are smart enough to be able to talk about what is going to happen in 2013 and beyond in that segment.

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### Louise Chen - Collins Stewart - Analyst

Thank you.

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**Operator**

(Operator Instructions) Tim Chiang, CRT Capital.

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**Tim Chiang** - CRT Capital Group - Analyst

Could you provide a little bit of color on where you think the profit margins are going to be in 2012, as well as the tax rate?

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

Yes, I think the tax rate is going to be similar to where it is this year, 2011, a cash tax rate of approximately 5%.

In terms of profit margins -- so you violated the one-question rule -- but I think the profit margins of each of our segments are going to be similar to what -- we don't expect to see dramatic changes from where they were this year. So I think if you model it based on this year's, that is probably a pretty (technical difficulty) modeling it.

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**Tim Chiang** - CRT Capital Group - Analyst

Okay. Sorry for violating the one-question rule.

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

It wasn't my rule, so I am okay with it.

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**Tim Chiang** - CRT Capital Group - Analyst

All right.

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**Operator**

Lennox Gibbs, TD Securities.

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**Lennox Gibbs** - TD Newcrest - Analyst

Good morning. Thanks. Just on the acquisition strategy, what do you see as the rate-limiting variable with respect to your ability to continue executing that strategy successfully in 2012?

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

I guess your question implies there is a rate-limiting factor. So far I guess it's our ability to find deals at the right prices. There is no question that there's lots of deals out there, so that is not a constraint.

I guess to the extent that we can continue to access the capital markets to pay for these deals, so far that has not been a constraint nor do we think it is going to be a constraint. We think, if anything, our ability to borrow has increased over the last few years as our cash flows have improved and our track record has been established.



So I guess the only variable that we can't control is the purchase price, because we have to get someone to agree to it. So I guess that would be -- so it's our ability to continue to find deals at attractive prices. Because what we are not going to do is begin to overpay.

So I guess that's -- finding willing sellers I guess is the rate limiting. But there is an awful lot out there, so our expectation is that that is not one of the concerns we have going into 2012.

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**Lennox Gibbs** - TD Newcrest - Analyst

Thank you. Just a quick follow-up. What are your thoughts around management capacity and your ability to integrate?

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

It's clearly one of the most important things that -- a key to our success. I think our track record so far has been reasonable.

Again, given our decentralized structure we're never -- very few -- I guess no acquisition we have ever made really put strains across the entire organization. So clearly we are pretty busy in Europe and within the Dermatology segment of the US right now given what we have done.

Australia probably as well. But Latin America, we haven't done a deal for a while. And if we think about even what we picked up through iNova, that affects Australia but it has no impact in terms of Southeast Asia or South Africa.

Canada has had a bit of a busy year, but Biovail is pretty well integrated and Afexa is a pretty small integration. So I think you almost have to think by business area what is our capability.

But clearly a sign that we have to -- it is critical to our success. Achieving the synergies is a key parameter of success, and that is why we put it out there and we will report on our synergy capture.

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**Lennox Gibbs** - TD Newcrest - Analyst

But it is not a rate-limiting factor at this point?

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

We do not think so.

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**Lennox Gibbs** - TD Newcrest - Analyst

Good. Thanks very much.

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**Operator**

(Operator Instructions) Gary Nachman, Susquehanna Financial.

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**Gary Nachman** - Susquehanna Financial Group - Analyst

Mike, on the expected cost synergies that you highlighted, do you think that is a conservative estimate and you would hope to exceed that? Particularly with the Derm assets I would have thought the synergies there could have maybe even been higher. Thanks.

**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I think you guys will have to reflect on our past estimates and whether we usually underachieve or overachieve and make your own determination in terms of whether you think we will underachieve or overachieve.

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**Gary Nachman** - *Susquehanna Financial Group - Analyst*

Maybe you could describe -- you mentioned the salesforce before, but just in terms of how you think of the integrated cost structure for the Dermatology business, and maybe some of the things that we might be missing that need to be added.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Yes, I will turn that question over to Rajiv, who will be running that business, amongst many others.

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**Rajiv De Silva** - *Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO*

Thank you, Mike. With respect to the integration of the Dermatology businesses, in terms of the cost categories, these were asset transactions, just to remind you. So we bought the assets and certain functions came with those assets.

So it is primarily a commercial integration, which is sales, marketing, and promotional spend. So those are the categories in which you would -- you should expect to see synergies.

We are well on the way to completing our salesforce integration. We already completed our management selection process prior to the holidays. We will be selecting our representatives this week and next. And we have a launch for the new business at the end of the month with a national sales meeting.

We have also taken a hard look at the promotional spend of both Dermik and Ortho. As you know from our prior performance, we have a different view in terms of how we spend, how much money we spend on promotional activities outside of our field force. So we have made some changes in those areas as well.

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**Gary Nachman** - *Susquehanna Financial Group - Analyst*

Okay, thanks for that.

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**Operator**

Marc Goodman, UBS.

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**Marc Goodman** - *UBS - Analyst*

First of all, interesting to see become a top 15 global pharma company by the end of 2013. Can you just comment on that a little more? You are talking about market cap, so I was curious if you can comment a little more on that.

Second, on FX. Can you give us a flavor for where are you naturally hedged better than some of the other places?



Obviously you gave us a little bit of color here on the revenues hit. Where is this going on for 2012? Was the hit basically Brazil, or where are these things?

And then in the CNS, is the Potiga \$45 million payment, is that in the CNS revenues right now? Do you include the alliance revenues in these things? Or is this just product sales? Just so we have a flavor for the guidance; thanks.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Sure. So, first question is probably the most interesting, so we will start there. Yes; maybe we're crazy, but we do have high aspiration levels for our Company. That's the reason we're all here.

We think our strategy and our business model has an awful lot of potential. So, our aspiration is to get to be a top 15 player, and we expect to get there not by them declining but by us increasing.

And we plan to do it by not diluting our share count. We are not planning to buy things using equity. It is a quick way to increase your market cap, but that is not of interest to us. So we plan to do it through the same as the past strategy.

Again, it is an aspiration; it is not guidance. But it is certainly one we are all committed to trying to achieve. And if we continue to have the same performance as we have had over the last four years, we should get there.

So, again, we like to share what we believe we can do with all of you, and you will make your own judgments.

I will let Howard take the foreign exchange question.

In terms of the Potiga payment, yes, it is in. But also last year we also got a Potiga payment, so those largely offset. So when we think about the decline, it is a decline on the products of 5% to 15%, because there was a milestone in 2011 and there is a milestone in 2012 and both milestones are roughly the same.

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**Marc Goodman** - *UBS - Analyst*

And the Potiga is in the CNS revenues?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Absolutely, just as it was in 2011.

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**Marc Goodman** - *UBS - Analyst*

And you have some generic -- you have some expectations for some products to go generic this year in CNS?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Yes, so maybe we should answer your foreign exchange question, which Howard will do; and then Rajiv can talk about some of the generic entrants we have on some of the old partnered Biovail products. So he will answer that in a minute.



**Rajiv De Silva** - *Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO*

Sure.

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**Howard Schiller** - *Valeant Pharmaceuticals International, Inc. - EVP, CFO*

On currencies, as Mike said, we do have to a large degree a hedge on the bottom line, given that we are manufacturing locally and we are selling in local currency. So it is more or less a currency, a translation issue as opposed to a real economic issue.

We're also -- at least to date -- have been reinvesting our cash, finding interesting investment opportunities locally. So, it is really translation on the process.

Then you all follow the currency markets, but just to give you a sense, for some of our major currencies year-over-year throughout 2011, the Polish zloty, the dollar strengthened 16% against the Polish zloty. In Mexico it was 13% strengthening. In Brazil 12% strengthening.

You look just even November to December, this past -- in 2011, you had the Polish zloty strengthening by 3%, and the Mexican -- or the dollar strengthening, the dollar against the Mexican peso over 2%. And against the Brazilian real over 3%.

And then you have some smaller currencies, such as the Serbian dinar and the Russian ruble and the Hungarian forint, where some of the movements have been even greater. So that is what we are dealing with.

Mike said going forward we more or less project using midyear 2012 forward rates, which are more or less current spot rates. What happens throughout the year will obviously impact the top line more than the bottom line.

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**Rajiv De Silva** - *Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO*

To answer your question on the Neurology generic entrants, there are three products of which there are new generic competition which were all approved in the back end of 2011 and will have impact in 2012.

Those are -- we have one strength of Cardizem CD, the 360-milligram strength that did not have a generic. So we now have a generic for that product.

Ultram ER has new generic competition, as well as Ancobon, which is a smaller legacy Valeant product. The two [partinaviral] products, which are the Cardizem CD and Ultram, the bigger impact.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Also in that decline number, we saw significant decline in Wellbutrin this year. So in the generic, when we talk about generics, because of a new Mylan entry, which was really the end of the first quarter, so at least in our forecast for next year, we are assuming similar declines in Wellbutrin as that product will continue to decline.

So that would be the fourth product that would have a significant impact, at least according to our projections.

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**Operator**

Annabel Samimy, Stifel Nicolaus.

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

Thanks for taking my question. A couple things that I noticed. One in Dermatology I noticed that you have an Aesthetics component there. So have you come closer to making a determination on whether you're going to make a bigger effort in aesthetics?

And the second thing is, with I guess you cleaning up franchises and narrowing it down to four and maybe your new ISTA bid, how committed are you to investing in an all-new franchise? Especially if that means you may not have the cost synergies that you typically like to see. Thanks.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Can you clarify the second part of the question in terms of franchises that we --?

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

Sure. You seem to have narrowed your I guess franchise reporting down to about four. And now you have come out with a bid that is in an all-new franchise.

Are you committed to adding new franchises to what you already have -- branded generics, Emerging Markets, Canada and -- or Dermatology and Neurology?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Sure, okay. I think I understand that. In terms of aesthetics, we have a very viable business through Sculptra and some of the other products that we got through the Dermik acquisition and some legacy Valeant products, but I don't think we believe we have critical mass.

So we plan to run this business. We will evaluate over the course of the year. But I would be willing to wager that a year from now when we are talking we will either have a much more significant aesthetics presence or we may not have an aesthetics presence at all.

So we either need to get to critical mass or we may need to think about some other things. So it is something that we continue to evaluate. We just closed on the business a few weeks ago, so we would ask for a little bit more time to get our hands around it to figure out exactly what we are going to do.

I think the reporting change has nothing to do with our strategy. It was just simply -- we had broken out Europe and Latin America as two separate businesses. Now that we have added Southeast Asia and South Africa, what we have is a growing emerging market presence. And we thought putting it all together -- a number of our investors invest in us partly for that emerging market presence, and it is one that we continue to grow. We will still report results at the sub levels in terms of revenues and in terms of gross profits.

And in terms of adding other platforms, clearly if we are going to be successful in becoming a top 15 pharmaceutical company in a reasonable time frame, we clearly will have to add other segments and other -- go beyond where we are today.

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

Great. Thank you.

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**Operator**

David Amsellem, Piper Jaffray.

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**Rebecca Forest** - Piper Jaffray - Analyst

Hi, this is Rebecca Forest for David Amsellem. I was wondering if you guys are still actively looking to add Derm products for the US market, and do you expect continued consolidation in that space?

Also, if you could just remind us about the consolidation of the derm manufacturing facilities.

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

Second question again? I missed your second part of your question.

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**Rebecca Forest** - Piper Jaffray - Analyst

Okay. If you could remind us how you think about the consolidation of derm manufacturing facilities?

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**J. Michael Pearson** - Valeant Pharmaceuticals International, Inc. - Chairman, CEO

Oh, sure. So, yes, we are obviously interested in continuing to grow our Derm business both organically and inorganically. We think in the US we are clearly one of the larger players now. We're a top-tier player, and there is no fun in being number two or three. It's a lot more fun being number one. So that is what we plan to do.

Rajiv, do you want to talk about the manufacturing?

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**Rajiv De Silva** - Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO

Sure. From a manufacturing standpoint, one of the major drivers is one of the big assets that we picked up in the Dermik transaction, was the Laval manufacturing facility. That will actually be the first topical manufacturing facility to service North America.

In the past, we have used third-party suppliers for all of our topicals. So it's actually a terrific opportunity for us to bring in a lot of our disparate third-party manufactured products into Laval.

There is capacity in the plant. It is a state-of-the-art manufacturing facility, which also does a lot of contract manufacturing work, and as such it is audited not only by Health Canada as well as by the FDA but also by several other larger companies. So it is a very well-run facility which we are very proud of.

So our expectation is over the course of the next two years that we will bring in a lot of our third-party manufactured products as well as some of the new products we are picking up from our J&J Ortho Dermatologics transaction, which are currently manufactured by J&J, we would like to bring into this facility as well.

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**Rebecca Forest** - Piper Jaffray - Analyst

I also have a question regarding the ISTA offer and if you could give us any more color as to how much more aggressive you would be. And if that doesn't pan out, whether or not you would continue to pursue a strategy in ophthalmology.

**Howard Schiller** - *Valeant Pharmaceuticals International, Inc. - EVP, CFO*

Yes, I will handle that. As we have mentioned, ISTA -- it's a very interesting business. We have a small ophthalmology business that we would like to grow. We have put almost a 70% premium over their then-trading and also their 60-day weighted average price at the time.

And at this point the company has announced they are going to explore strategic options and solicit indications of interest, and we are waiting to hear from them what their process is. And then we will decide how to move forward accordingly.

But we are not going to -- you wouldn't expect us to negotiate the price on this call. But we remain interested. But as we stated before, we are not -- this is not something that we are willing to spend a year chasing, and hence that was why we put the deadline on.

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**Rebecca Forest** - *Piper Jaffray - Analyst*

Okay, thanks. And then just one more if I may. Could you provide some additional color regarding the launches planned for the generics business, particularly in Mexico, Brazil, and Central Europe?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Launch plans? Well, basically they won't all happen, but almost every month we will be launching a product in each of our markets, a new product in each of the different countries in our branded generics space.

I think if you followed old Valeant for the last few years, when I arrived we basically had a completely depleted pipeline in terms of our branded generic businesses. And what we have been doing ever since is investing in dossiers and registrations.

So we finally now -- and that coupled with the fact that PharmaSwiss brought a pipeline with it and Sanitas brought a pipeline with it, that we now have -- we're finally sort of at full capacity.

We have talked about we launched about 100 products last year across our branded generics; and that is going to more than double this year in terms of --.

So none of these products are -- it's not like the US. These products maybe on average will be like \$3 million. You know, get their \$3 million to \$5 million peak sales. So some will be larger, some will be smaller.

But it's one of the ways that you are able to maintain your pricing in these markets is continue to launch new products. And that is a key part of our ability to offset any kind of reimbursement pressure.

So if you look at these markets in terms of our average price year-on-year, it's been flat to slightly growing historically, which is quite different than if you just look at average -- what is happening to average prices in these markets. So it's a key part of both growing overall, the overall business, as well as maintaining pricing levels.

So in all these markets -- with the exception of Brazil and Mexico and in Europe, we tend to operate not just in Dermatology and Neurology, but we are full-fledged pharmaceutical companies. So we operate in almost every therapeutic area. We are full-scale manufacturers and marketers in these countries.

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**Rebecca Forest** - *Piper Jaffray - Analyst*

Okay, great. Thank you so much.



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**Operator**

Corey Davis, Jefferies.

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**Corey Davis** - *Jefferies - Analyst*

Thanks. Laurie, I will adhere to your one-question rule, realizing that you are not giving quarterly guidance. But, Mike, can you give us any qualitative comments as to the progression of EPS throughout the year? And maybe start with, should Q1 2012 be below Q4 2011?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Well, hold on. I am getting some advice from some colleagues. We will see if it is good advice.

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**Laurie Little** - *Valeant Pharmaceuticals International, Inc. - VP IR*

Thank you, Corey. I appreciate that. We are just trying to make sure we answer as many questions as possible.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

(multiple speakers) advice quickly. Yes, okay. The advice was consistent with -- yes, so. No; we are not going to give quarterly progression.

We are an awfully hard company to track, obviously, given how actively our quarter-to-quarter etc. etc. Probably the biggest thing that we don't know about quarter one will be the Potiga milestone; but we are saying let's assume second quarter. When we give our fourth-quarter guidance call, we can give you a lot more clarity on that because we will probably know at that time whether it's going to be first quarter or second quarter. So we are not trying to play any games there.

But specifically, we do expect first quarter to be significantly better than fourth quarter. We will be adding iNova. We basically had very, very little sales and probably almost negative profits from the acquisitions we made because they all came at the very end of the quarter, where most of the sales were gone and the costs were still there.

So our fourth quarter will have very little of any of the acquisitions. But the good news is they are all closed and they will all be part of us going forward.

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**Corey Davis** - *Jefferies - Analyst*

Okay. That's helpful. Thanks.

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**Operator**

Juan Sanchez, Ladenburg.

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**Juan Sanchez** - *Ladenburg Thalmann - Analyst*

Good morning. How many shares did you end the year with? How many in your guidance -- that implies how many shares throughout 2012?

And what kind of level of revenues are you projecting on Zovirax?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I will do the Zovirax.

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**Howard Schiller** - *Valeant Pharmaceuticals International, Inc. - EVP, CFO*

Okay. I will take the question on the number of shares. If you recall, we announced at the end of the third quarter that there were 318 million shares outstanding. And we repurchased, as Mike went through on one of the slides, we repurchased about 1.8 million shares in the quarter. There are some other adjustments; and the expectations is that we end up around 315 million. There are still some moving pieces, but that is the expectation.

It in terms of what is built into the model, as you saw we are going to generate an awful lot of cash. And, as Mike articulated, our hope is to be able to find really interesting businesses and assets to purchase at attractive valuations and returns.

If not, we are going to look at ways of returning capital to shareholders and utilizing that, the balance sheet, as we have done in the past between share repurchased and bond repurchases.

That all depends on where the opportunities are, what the markets look like. And that is -- we are just going to -- we will make the right decisions, hopefully, at the time.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

In terms of Zovirax, we actually look at Zovirax and Xerese as a bit of a franchise. We are a little bit indifferent in terms of whether we sell Zovirax or Xerese. They are clearly different compounds, but they have some of the same indications.

So if you look across that franchise we expect to have very solid growth next year for the franchise. And whether -- what percent comes from Xerese and what percent comes from Zovirax, again, we don't care; and we suspect you actually don't care either.

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**Juan Sanchez** - *Ladenburg Thalmann - Analyst*

All right. Thank you.

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**Operator**

David Risinger, Morgan Stanley.

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

Thanks very much. I was hoping that you could speak to one-time gains in 2012 a little bit more. You've obviously talked about Potiga, but if you could just characterize when you give guidance what you are assuming.

So for example, I think last quarter you said you would consider selling certain businesses, possibly some generics operations in certain geographies. Would that be included in revenue and EPS guidance since it is part of the business model, or not?

And I guess a separate but similar tie-in question would be -- what is the benefit that you are assuming for other one-timers, whether they be divestitures or other items, gains, etc., beyond Potiga? Thank you.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Sure. So, in our guidance we are assuming no one-timers. If we have any one-timers we will pull those out; i.e., we will separate them like we did when we sold Cloderm or whatever, and identify what is the top-line and bottom-line impact.

We follow GAAP accounting rules, so if GAAP requires us to include them in our top line, we will include them in our top lines, as we should. But we will clearly separate those out, and our guidance is without any of those.

The reason we included Potiga and we included it last year when it was Trobalt in Europe is we actually do think that it's going to be an ongoing cash flow stream for us. We expect this product to become an important cash contributor, and this is part of cash that we are getting.

So we don't think it is a one-timer. It is the beginning of a sustainable set of cash flows that we are going to get from these products. So that is why that is in.

It is in both '11 and '12. So from a comparator standpoint, it doesn't represent any real growth. But any other one-timers are not included in that, nor are any business development opportunities at all. What we are giving guidance is -- if we do no deals and we just operate our business for the next year, that is what we expect to deliver.

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

Great. Thank you.

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**Operator**

Michael Tong, Wells Fargo Securities.

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**Michael Tong** - *Wells Fargo Securities - Analyst*

Thanks, Mike. Quick question, actually it's just a follow-up on Louise's first question regarding return of cash to shareholders. In your response you talked about growing the business, and that sounds to me a lot like reinvesting in the business.

So my question here is -- typically when we hear about returning cash to shareholders, that is dividends or share repurchases. How do you think about that in terms of a split between reinvestment and return of cash to shareholders, in that strict definition?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Go ahead, Howard.

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**Howard Schiller** - *Valeant Pharmaceuticals International, Inc. - EVP, CFO*

Yes, I think it is hard to be too prescriptive here. Again if we can find -- think about this past year, the acquisitions made at an average of 2.4 times sales. I think you all would be happy, if we could find another group of acquisitions with similar return characteristics, that you would be pretty happy with us deploying cash in that direction.



We're going to be generating a lot of cash, as you saw. We are just -- as you know this Company is just not going to let it build up and sit, earning nothing on its balance sheet.

So we are going to be opportunistic and hopefully deploy capital in a way that is best for our shareholders. But it's really hard to say X this way and Y that way at this point.

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**Operator**

Greg Fraser, Bank of America.

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**Greg Fraser - BofA Merrill Lynch - Analyst**

Thanks, it's Greg Fraser for Gregg Gilbert. I will ask one two-part question on the Derm business. Now that you have close the Dermik and Ortho acquisitions, can you talk about any initiatives that you are planning or have already started to stimulate Rx growth for BenzaClin and Retin-A-Micro?

Then secondly does the U.S. Derm sales range assume additional generic competition to BenzaClin? Thank you.

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**J. Michael Pearson - Valeant Pharmaceuticals International, Inc. - Chairman, CEO**

I will let Rajiv talk about the initiatives we have; but yes, we assume additional generic competition in our forecast for BenzaClin because the patent does expire. So that is certainly built into our forecast. Obviously, we plan to migrate as much as possible to Acanya over that period.

But in terms of initiatives?

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**Rajiv De Silva - Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO**

Yes, so obviously this is early days. We have just closed the transaction just before Christmas, and as I said we are building up to our national sales meeting that is coming up in a couple of weeks.

But certainly there will be several things that are different than in the past. One is obviously both the Dermik and Ortho businesses were clearly in transition mode the past year, because most people knew that they were about to be sold, or at least the company was in discussions which creates ambiguity in the field and then certainly doesn't help the focus. So I think what we will certainly see going forward is a very focused field force, which will be a big driver we think in terms of the success of Retin-A-Micro.

Secondly, we also have over the course of the last several years perfected our co-pay card rebate strategy, and we will be applying some of those same tactics to the new products as well, as well as looking at several new lifecycle management opportunities for these brands. So clearly we have a multitude of different initiatives that we're going to put against these products.

As Mike said, we do expect a generic for BenzaClin to come towards the back end of next year. So given the lifecycle of that brand, it doesn't make a ton of sense to invest a lot of new initiatives around that.

But obviously we know the acne category very well. We know the prescribers very well. And we have a very broad portfolio that will be taken into these clinicians, and we fully expect that over time that the Acanya brand will continue to grow and benefit from having this broader portfolio.

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**Operator**

Alan Ridgeway, Paradigm Capital.



**Alan Ridgeway** - *Paradigm Capital - Analyst*

Hi, good morning, guys. Thanks for taking the question. Mike, maybe you could just talk a little bit about Russia and the Ukraine. In the past I think you've mentioned that you weren't sure about maintaining the business in Russia.

So could you maybe just give us a little bit of color around what the potential opportunity there is, given the size it is today, and what maybe you could see it growing to in the future? And I will just leave it with that, thanks.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Sure. So Russia is one that we have gotten increasingly positive. We have a very different -- I shouldn't say different business model. It's -- our business right now in that part of the world is small, maybe EUR20 million. So it's almost insignificant.

However, our business is all OTC cash pay. So we are not involved in the reimbursement and selling to governments etc., etc. So we have an OTC business.

We think actually brands are really well regarded in that part of the world, and we think we have a bunch of interesting brands that we can introduce into this sales infrastructure. I think we can -- so we really plan to -- and we think the pricing over there is quite good as well.

So what we would plan to do is put more promotional effort against the products that we currently have; introduce a bunch of new OTC products; but again stay away from the reimbursed products; and minimize any kind of risk that comes with it. So in terms of upside potential, we view it in the hundreds of millions, not in the 20s of millions.

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**Operator**

Bill Tanner, Lazard Capital.

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**Bill Tanner** - *Lazard Capital Markets - Analyst*

Thanks for taking the question. Mike, just on your bullet point 3 on the 2012 strategic initiatives, the additional growth platform, you may have alluded to it a few questions ago; but should we be thinking about this more as a new therapeutic area or a sub-therapeutic area versus a new geography? Thanks.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

It could be either because we view both as platforms. But given that we have just picked up a number of new geographic ones, probably therapeutic is the more likely of the two.

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**Operator**

Douglas Miehm, RBC Capital Markets.

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**Douglas Miehm** - *RBC Capital Markets - Analyst*

Morning, Mike. Just with respect to numbers 5 and 6 on the strategic initiatives, you talk about aggressively managing the balance sheet and becoming a top 15 global pharma. I know you talked about this a little bit. Number one, what market cap would that entail?

And would you look at merging the Company with a larger than a Cephalon-type deal to get you there? Or are we thinking about something else in terms of the opportunity?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

And what was your question on 5?

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**Douglas Mieh** - *RBC Capital Markets - Analyst*

When you talk about aggressively managing the balance sheet, is that strictly share buybacks? Or are you contemplating other measures to increase shareholder value there?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

Yes; so, 5 is the easier question so I will start there. I think what you have seen in the past is where as Howard said, we don't -- we're a little nontraditional in that we view the balance sheet as a way to create value for shareholders just like the P&L.

So going in and -- for example when the prices on our long-term debt dropped significantly, they were trading 10 percentage below par, we went in and bought some and created -- reduced our overall debt level and returned money to our shareholders.

Again, on the converts we were quite aggressive going in and buying them at discounts. So we will continue to be active. We have an active treasury department that takes advantage of market volatility. When our share price drops for some reason, and we know that -- or we believe that we are undervalued, we are more aggressive buying than if we don't believe that. So one should expect to continue us to try to build shareholder value in every way we can through the balance sheet.

In terms of achieving top 15 global pharma company, I think our -- I think if you had to -- if you did the analysis today it'd probably be around \$50 billion. So it's a substantial increase from where we are today.

We will consider anything that is going to increase shareholder value, but we are not contemplating -- our plan is not to, in a sense, merge with someone else to get there. Because that's easy, right? If you put two -- we merge with someone that's also \$15 billion, then we're 30, and we haven't necessarily increased much shareholder value. And we're all big shareholders.

So if we merge with someone that is also 15 and we expect the combined entity to be worth \$60 million, then that would be probably be a pretty good idea. We would probably do that. But that is not -- our basic modus operandi is to continue to buy companies at reasonable prices and earn disproportionate returns on that.

And, quite frankly, it is not going to stop us from buying back shares. Every time we buyback a share we shrink the equity -- or the market cap of our Company. But if that is still a good thing to do, that will work against this particular objective, but we are happy to do that, because it will increase shareholder value if we buy at the right prices.

So we don't have some master plan of we are going to merge with -- do two mergers and get there, just to get that objective. These are longer-term, strategic initiatives and we are only going to do them consistent with the overall objective, which is returning shareholder value. I.e., if you own a share today that your return, what we -- our litmus test is you will earn a better return off owning a Valeant share than any other pharmaceutical stock.



**Douglas Mieh** - *RBC Capital Markets - Analyst*

Okay, great. Thank you.

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**Operator**

Juan Sanchez, Ladenburg.

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**Juan Sanchez** - *Ladenburg Thalmann - Analyst*

Thank you for the additional question. Do you want to give us some color about the potential market opportunity for IDP-108 and what the next steps are?

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**Rajiv De Silva** - *Valeant Pharmaceuticals International, Inc. - President and Specialty Pharmaceuticals COO*

Yes. Obviously it is early days for this compound as well. We are very pleased with the clinical results of the Phase III study. But obviously there are several steps before we can actually launch the product.

One of those is filing with FDA. We are in the process of scheduling a pre-NDA meeting with the agency. And that will [detect] next steps. We are reluctant to get into a lot of detail.

But what you can say is that if we look at our Phase III studies, both were found to be statistically superior and clinically meaningful versus placebo. And that will be a first for a topical treatment for onychomycosis.

And our primary endpoint which is complete cure at Year 1 is the endpoint that also got more stringent over time in terms of how the FDA has applied, so we are very pleased with the results.

In addition to talking with agency, we are also in discussion with several academic publications in terms of how best to disseminate the data. So we will be able to talk more in the next few months and quarters.

As we look at the unmet need in this area, it is substantial. If you look at some of the previous molecules that treated onychomycosis, obviously there is Lamisil, which is an oral and a different category. But Lamisil was a billion-dollar product for Novartis.

Penlac, which had a very different clinical profile and was a topical and was approved under a slightly different set of circumstances in terms of how the FDA viewed clinical endpoints, was around a \$300 million brand. It's obvious we can't predict exactly where IDP-108 will end up, but we are very encouraged with both the results as well as the continued unmet need both in the developed markets as well as the emerging markets in the treatment of onychomycosis.

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**Juan Sanchez** - *Ladenburg Thalmann - Analyst*

Thank you.

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**Operator**

Graham Tanaka, Tanaka Capital.

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**Graham Tanaka** - *Tanaka Capital - Analyst*

Congratulations on a great year and a great transition. Michael, I am just wondering, you have done a lot. You have established a much more global footprint, had a lot of therapeutic categories.

I am just wondering as you go through this year what your priorities are going to be in terms of expansion and acquisitions. Are you going to be focusing equally on acquisitions, or more -- throwing more assets at growing organically?

And what is that potential long-term growth rate going to be in two or three years? What kind of mix from organic versus acquisitions? Thanks.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I think the answer is yes. And what I mean is, we are going to be focused on all those.

What we really, really are focused on is how do we spend our time -- I know it sounds rote, but it's true -- increasing shareholder value. We think we need to continue to grow organically. It's a very important metric for us. We didn't give guidance on it, but we said we expect a very good organic growth rate this year and in out-years.

It is a very important -- growing the assets we buy is very important to us. And quite frankly, if we can't grow the assets we are buying, we are probably not doing very good acquisitions. So that is very critical, and we have a lot of people focused on that.

On the other hand, if we can continue to buy things at reasonable prices and deliver shareholder value that way, we will plan to do that. So our aspirations in terms of overall growth are quite high. In terms of what percent is going to come from acquisitions and what percent is coming from organic growth, it is sort of like Howard answered -- the how do we return capital? It kind of depends.

But I am sure any growth rate below 20% is what we think year on year -- we can't even imagine. So believe we will continue to be -- there is lots of opportunity for growth and we will continue to hopefully grow a lot quicker than other companies of similar size in the industry.

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**Graham Tanaka** - *Tanaka Capital - Analyst*

I guess one of the ways to maybe look at that and reframe that question is, how much flexibility do you have from the free cash flow generation to use to generate (technical difficulty)?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I think you are fading. You're either fading or we are fading.

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**Graham Tanaka** - *Tanaka Capital - Analyst*

Yes, I am just wondering how much -- your cash flow is pretty high, and I am wondering what that -- you have estimated how much external or acquisition growth you can generate each year just by utilizing -- say you utilize all the free cash flow for acquisitions. How much theoretical long-term growth could that add?

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I can't give you a quick answer because that is not the way we look at it. Because what we are doing is, as we acquire companies, most companies we buy actually are unlevered. So what we are doing is continuing to borrow off their balance sheets. That's part of our strategy.



In pharma most companies are unlevered, and we are more levered than average in this industry. Although if you look at other industries we are actually not very levered industry either. But within pharma, because of the cash flow profile and pharma companies tend not to historically be very levered.

So, this year if you look at how much cash we generated, it will be over \$900 million, which is great. But what we spent, we spent \$2.5 billion in acquisitions. And in addition, we bought back a ton of shares and converts.

So we are not constrained by our cash flow. Our increasing cash flow actually -- there is a multiplier factor on it. As we increase our EBITDA every time we do an acquisition, it gives us borrowing capacity at that same leverage ratios that we can use to --.

So we don't think about it as we have \$1.2 billion-plus money to spend this next year. We've -- that \$1.2 billion means our capacity to spend is significantly higher than that. So we do not see a constraint from a borrowing standpoint to continue to be very aggressive.

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**Graham Tanaka** - *Tanaka Capital - Analyst*

Congratulations. Thanks for everything.

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**Operator**

David Risinger, Morgan Stanley.

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

Yes, thanks very much, and thanks for taking the follow-up question. With respect to cash flow for next year, could you just talk about one-time charges? Just so we have a sense for what you are predicting from a GAAP cash flow standpoint in 2012.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I'm not sure we have a great answer. I think the one thing that always affects our GAAP cash flow is -- whenever you do an acquisition you have to do an inventory markup. Right? So all the inventory they have on hand gets marked up to actual sale price; so you get no cash flow off that.

So if you look at the Merck/Schering merger, if you look at the Pfizer/Wyeth merger -- so that is the biggest adjustment. In terms of one-timers we don't expect -- I'm looking at Howard. I don't think there is any expectation that there is any significant one-timers.

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

Okay, thank you.

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**Operator**

Henry Reukauf, Deutsche Bank.

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**Henry Reukauf** - *Deutsche Bank - Analyst*

Hello. Just a quick question. Mike, I know the last time, last quarter you said one of the governing factors in terms of doing share repurchase was your bonds and the covenants there, the RP test. Can you tell us what the RP test is now in terms of your reserve?



I know that will grow with the cash income of the Company, but just wanted to check that.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

I would suggest on that one, why don't you give Laurie Little a call? We will get that precise calculation number.

It is public. I.e., if you -- we filed the loan documents and you can go through and figure that out. But we can -- therefore we are happy to do that calculation for you.

But because of our strong third quarter we can still be -- we're not in the market now; we are in a closed period, but there is capacity out there now. And after our fourth quarter, if we deliver on what we talk -- communicate today, that will further expand it, as you said.

So it's a governor, but it's at this point not rate-limiting.

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**Henry Reukauf** - *Deutsche Bank - Analyst*

Okay. I will check with Laurie. Thanks very much.

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**J. Michael Pearson** - *Valeant Pharmaceuticals International, Inc. - Chairman, CEO*

All right, I think that wraps up the questions, so thank you very much and we will look forward to talking to you again in a few months.

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**Operator**

This concludes today's conference call. You may now disconnect.

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