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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Chris Schott *JPMorgan - Analyst*

PRESENTATION

Chris Schott - *JPMorgan - Analyst*

Good morning, everybody. I'm Chris Schott, Pharmaceutical Analyst at JPMorgan. And it's my pleasure to be introducing Valeant today. From Valeant, we've got Rajiv De Silva, the Company's President and Chief Operating Officer; as well as Howard Schiller, the Company's CFO. Also, we've got Mike Pearson in the audience and he'll be joining us for the breakout session afterwards.

So with that, turn it over to Rajiv.

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

Thank you, Chris, and thanks to all of you for being here. It's great to be here. Let me begin with just a little bit of background for Valeant -- on Valeant, for those of you who don't know us. Very quickly, we are a specialty pharmaceuticals company; on a LTM basis, roughly about $2.5 billion of revenue, but in many aspects, we're very different than most other companies of our size. Highly diversified, more than 500 products without any single product accounting for more than 10% of our revenue. So, a very different profile than most companies.

We're organized around four major business areas; US Neurology and Other; US Dermatology; Canada/Australia; and Emerging Markets, which in turn has three subsegments, which is Central and Eastern Europe; Latin America, which is primarily Mexico and Brazil; Southeast Asia and South Africa, which is our latest subsegment which we got through the acquisition of iNova Pharmaceuticals for the back end of last year.

So, when you put that diversity on a map, this is what it looks like. Roughly about 50% of our revenues is in the US and 50% outside. And strategically, our intent is to continue to grow our revenues such that less than 50% is in the US and obviously, we choose to do that, not by shrinking the US, but preferentially growing our ex-US businesses.

A little bit on our operating philosophy. I think many of you probably know this, but some of you may be new to it. We've taken a very different approach to managing our Company than most others in this industry. I will not read every single element of our operating philosophy, but maybe mention a few things that are different.

One is that we have a belief that the cost structures in this industry mostly, certainly for the bigger players as well as the medium-sized companies similar to ours, is not properly structured from a longer-term viability perspective. So, we've taken a very low-cost operating mentality to how we run our business. We don't bid on science, we bid on management. That is not to say we don't believe in innovation, but we believe in buying that innovation as opposed to spending a lot on technically risky projects.

A few other aspects of our business model. Obviously, business development is very important to what we do, it's a line responsibility. Mike, myself, Howard, we're all deal makers for the Company as are our General Managers. So we don't rely on a staff function to do that. We believe in change. Change is good, both from an internal and an external perspective. And speed in like a bureaucracy. A lot of them will talk about it, but we put this into practice and certainly one of the things that differentiates us particularly when it comes to doing transactions.

Moving quickly, what we will do is, I will cover a quick review of 2011 and Howard, our new CFO, will talk about a few perspectives looking forward for 2012. 2011, we had a guidance call last week, where we gave you some perspectives as to how we expected to end the year and we are certainly very comfortable with the guidance that we've given.

But even more importantly, we are very proud of our accomplishments that go beyond the financial. First of all, our acquisition agenda, we completed 11 acquisitions at average sales multiple of 2.5%. And in doing so established a new platform in Southeast Asia and South Africa, as well as Russia which we got through the acquisition of Sanitas in the middle of the year.

We have multiple integrations ongoing and again, this is core to our business model. We have been very successful with the integration of Biovail, which is completed in the middle of -- by the middle of last year and several underway, which we can elaborate on in a minute.

Obviously, we are not known as being an R&D company, but despite that, we've had some real success in our pipeline in this past year. The approval of Potiga and Trobalt in the area of epilepsy, which is a product that's partnered with GSK, and a late-stage success with our topical onychomycosis product, which is a very recent development. Beyond that, given the nature of our business, we have a very large pipeline of smaller launches, both prescription as well as over-the-counter in all of our geographic regions, which fuels our business.

And as a final point, we've also worked very hard to optimize our balance sheet in a way that we believe maximizes shareholder value end of last year.

Our acquisition agenda, I will not go through this in great detail, but maybe to point out a few that are very meaningful for us. Dermik and Ortho Dermatologics, two acquisitions that really cement our position as a leader in dermatology in the US. Both of those transactions closed in December. Sanitas and PharmaSwiss that has transformed our Central and Eastern European business from being a primarily Poland-focused business to one that has a -- has one of the industry's leading distribution networks in that part of the world.

iNova, which we closed towards the back end of December, really builds critical mass for us in Australia, as well as gives us a new beachhead in Southeast Asia as well as South Africa. And then, finally, Afexa, which is a small transaction in Canada, but one that really gives us a meaningful presence from an OTC standpoint in the cough/cold arena in Canada.

Our new product pipeline, I talked a little bit about IDP-108, which is our topical onychomycosis product. We've had successful Phase III results and we are awaiting a pre-NDA meeting with the FDA and looking forward to filing this compound. And we do have a very active dermatology pipeline behind that at our Dow Pharmaceutical subsidiary in the Bay area, in the area of acne as well as psoriasis and a range of other dermatologic products and indications.

Our Canadian and Australian business, we have an active pipeline of in-licensed molecules. Two examples here, Opana in Canada, in the area of pain, which we expect to get approval sometime in 2012; Lodales, which was recently approved, which is known as Welchol in the US. And beyond that, again, as in the US, we have a range of other over-the-counter medications that we expect to launch in these geographies.

Our pipelines in the Emerging Markets for obvious reasons are different. These are primarily branded generic businesses, and it is [typical] for us to have a pipeline of at least 200 different products and molecules that we launch in the course of a year to 18 months.

Our integrations, as I mentioned, the Biovail integration completed last year. We exceeded $320 million in terms of synergies, which is well in excess of the synergy target that we communicated at the beginning. And probably even more importantly, we saw an acceleration of our business in Canada, which is where most of the integration took place.

US Dermatology integration underway with Dermik and Ortho Dermatologics. Most of our field organization is in place and we expect to launch our new organization at the end of this month.

The European integration, similarly, our management structure is in place and obviously, it takes a little bit longer to extract redundancies in those markets. So those are ongoing.

The Afexa integration in Canada is largely complete, with the restructuring of the R&D program as well as the commercial organization. And in the case of our iNova, which just closed in December, we already made very good progress in the integration, which is primarily an Australian integration. Overall, we expect to exceed $200 million in synergies by way of annual run rate by the middle of the year.

And one other thing of note, we typically don't include manufacturing synergies in our synergy numbers, but we have become a -- begun a program of manufacturing rationalization, both in North America as well as in Europe, which should help us exceed this target over time.

I will not repeat our fourth quarter guidance other than to reiterate that we are comfortable in achieving these metrics that we mentioned in our guidance call last week. But I will take a couple of minutes to reflect on our 2011 strategic initiatives.

Again, this may be a little different than other companies, but in addition to our guidance, every year, we put forward the strategic initiatives that are not guidance, but it's our stretch objectives that we set for ourselves and most often, we make them in the year that we set them and sometimes in the following year. And these are the six that we had laid out for ourselves in 2011.

And with four of them, I think we are solidly in the completed category, which is the Biovail integration, our acquisition program optimizing the balance sheet and over-delivering on past acquisitions. Two are in the partially completed category. One is the launch of ezogabine and retigabine, which we did complete in Europe. The product is approved in the US, but not yet launched; it will be launched sometime in the first and second quarter of this year.

And improving the growth profile of legacy Biovail products. We've had very good success doing that in Canada, with our Canadian portfolio as well as with products like Xenazine. On the other hand, we've been disappointed with other products like Wellbutrin, but net-net, it's a product profile that over time, we will certainly rely more on our Canadian Biovail portfolio and that's one where we've had success.

So with that, let me now turn this over to Howard to talk to you about 2012.

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

Thanks, Rajiv. I'm going to walk us through the 2012 guidance that we outlined last Friday, and hopefully add a little bit of color and answer some of the questions that came up post the call.

As we mentioned last week, we expect to be between $3.1 billion and $3.4 billion of revenue, 30% to 40% increase over last year. We forecast using mid-year forward currency rates, which essentially were on top of spot rates. So obviously, currency fluctuations could have an impact as we get through the year and we'll talk about that in a moment. Cash EPS between $3.95 and $4.20, a 40% to 45% increase; and cash flow from operations above $1.2 billion.

Now, these numbers exclude any new acquisitions that we may attempt in 2012. We don't forecast acquisitions. It does include the acquisitions that we consummated at the end of 2011. The north of $1.2 billion of adjusted cash flow, I think, is particularly impressive given that we have -- it's $300 million over last year, but we have a $200 million headwind due to divestitures in certain generic entrants, which we'll talk a little bit about in a moment.

What's in the guidance and what's not in the guidance? The Potiga milestone, Rajiv talked about $45 million as -- will be included as alliance revenue, which is in this -- the second quarter. There are no other item -- one-time items included. We have depreciation of $40 million to $50 million that we include in the guidance, as well as we include our stock-based compensation. There are no gains on sale of assets or businesses or investments. If we recognize those gains, we'll break them out and identify them as we have in the past.

And in terms of the quarterly progression, Q1 will be ahead of Q4 2011 due to the fact we closed Ortho, Dermik. And I know we, at the end of the month, had very little in the way of sales, and we will be getting 100% of those sales in the first quarter. Q2 will be positively impacted by the Potiga milestone, as we mentioned. And Q4, based on our historical -- consistent with historical experience, will be the highest quarter of the year.

In terms of the segments, I might walk through how we're going to look at our segments going forward and a big change being the grouping of our Emerging Market businesses together, estimating greater than $1 billion and a big increase this year. I think you see now, we have some very sizeable businesses. What I find very exciting, given our structure and our strategy, the opportunity to add to these businesses, add acquisitions that are meaningful and transformational at the business level and maybe not at the Valeant level, but string the number of those together and we have -- we can [have] a year where we can have significant impact on the topline and the value of Valeant.

I think I know it was a good example of that. There was a transformational deal in Australia, but not a transformational deal at Valeant and we hope to find others like that as we move forward. We will continue to break down the revenue in more detail in the Emerging Market segments. You'll see Europe, Latin America, and Asia, Africa.

Rajiv talked about the cost saving. I just want to reiterate that the total synergy run rate will be achieved mid-year, so the second half of the year. You'll see the $200 million run rate at the beginning of the year and particularly in Q1, it's going to be much lighter.

Organic growth guidance. Mike, on Friday, mentioned that we're -- while we're going to continue to measure and report each quarter organic growth, and it continues to be a primary focus and a metric that we look at. We're no longer going to provide guidance for 2012 for organic growth. Again, while it's an important metric, it's not the metric we use, either to measure ourselves or the metric we use to incentivize our General Managers.

And bottom line is we do different types of transactions and we didn't want to be in a position where we were incentivized or General Managers were incentivized or thought they were incentivized to turn down very high rates of return acquisitions because they may be diluted to overall organic growth. So, it's not that we're changing our commitment to exceeding growth in the markets that -- the growth of the markets in which we participate, but we thought it made sense at this time to not provide that guidance.

We talked about currency impact. This year, in the fourth quarter, we talked about $40 million of topline, impacting about $0.05. You just see some of the major currencies that we deal with. We deal in both the year-over-year changes, also the average Q3 versus the average Q4. That's where the average Q3, average Q4 is where the real change occurred. And you see a number where there was a double-digit impact, and that's pretty significant in the currency markets.

Now, the -- most of our exposures are naturally hedged because we sell a manufacturer locally. We've also been finding opportunities to reinvest our cash flows locally. So, we get somewhat of a hedge there. So it's more or less a translation, but nonetheless, year-to-year, it's going to have an impact. Some years, it will be positive; some years, it will be negative. I talked to you about how we forecast currencies, and we're not going to sit here and predict, but it's important you understand where we are operating and the impact that currencies potentially could have.

Talked earlier -- and Rajiv talked about our strategy and the benefits about diversification, both geographically and from a product point of view. I mean, this is our US patent exposure chart. And you see over the next five years, we have a couple in one year, a couple in another year. But when you look at the sales those products represent, this is a very manageable profile. And I think that's one of the -- one thing that differentiates Valeant from other companies in their pharmaceutical industry. The top-20 products for us globally represent around 40% of our revenue.

Mike outlined the strategic initiatives on Friday. I'm going to go through them. A couple of them are 2012 initiatives, some of them are longer-term initiatives. And the first couple increased non-US revenues to approximately 50%. We think we are well on our way there with some of the acquisitions that we concluded in the fourth quarter and some of the things we see in our pipeline. As a subset of our $200 million synergy objective, there are $75 million synergy run rate in Europe by the end of 2012. We want to build or acquire at least one additional growth platform; it could be a geography, it could be a product.

Exceed $1.5 billion in Emerging Market sales. And we have greater than $1 billion in our guidance. So it's unlikely [allowing] that we're going to achieve that and maybe we don't achieve that in 2012. It's probably unlikely without an acquisition. But it just shows our commitment to growing in these markets, our belief in the long-term value that these markets represent for us.

Aggressively manage our balance sheet to create shareholder value. Valeant, as you know, is not a Company that's going to sit around with a lot of cash on its balance sheet. There's a history of either finding interesting investment opportunities or returning that cash to shareholders and I would suspect that we would continue that strategy.

And last but not least, become a top-five global pharma company as measured by market cap. I had to look at this slide right before the presentation to make sure Mike didn't slip in there top-five global pharma company by the end of 2013. But I think the real takeaway for this initiative is a couple of things.

Number one, this Company is totally focused on delivering superior returns to shareholders. I think secondly, that the incentives, the management, all the way through the ranks and shareholders, their incentives are aligned. Our incentives are totally based on delivering a higher stock price and that should be music to all of yours ears.

This is not -- this was a goal; maybe get there, maybe we don't get there. But Mike and Rajiv have set pretty high goals for this -- have set pretty high bar for the organization and we're going to continue that. We're going to continue pushing ourselves to deliver absolutely the best returns that we can for you all.

Long-term aspirations. Obviously, our commitment to patients, customers, employees, [communities and] countries we work in, and we're going to do the right thing for the right reasons and that's number one. Rajiv talked about our operating philosophy that's going to continue speed to centralization, low-cost operating model, our emphasis on buying in products, interesting products, not investing in R&D will all continue.

And the bottom line is, we want to become the leading specialty pharmaceutical company, but measured based on total returns to shareholders.

Chris Schott - *JPMorgan - Analyst*

Thank you.
