

FINAL TRANSCRIPT

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**VRX.TO - Valeant Pharmaceuticals International Inc at Bank of America
Merrill Lynch Global Healthcare Conference**

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CORPORATE PARTICIPANTS

Mike Pearson

Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Mariusz Gajowniczek

Valeant Pharmaceuticals International, Inc. - President, Europe

CONFERENCE CALL PARTICIPANTS

Gregg Gilbert

BofA Merrill Lynch - Analyst

PRESENTATION

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Okay, we're going to go ahead and get started. Thank you for coming and welcome to those of you on the Webcast or reading the transcript in the coming days. This is Gregg Gilbert. I cover US specialty pharma, and recently added major pharma to coverage as well.

Happy to have Mike Pearson here today. He is Chairman and CEO of Valeant. He joined the Company about 3.5 years ago. Before that, Mike spent over 20 years as a consultant at McKinsey, involved in strategy integrations acquisitions with some of the CEOs in the space. Mike has certainly brought a unique strategy to the sector, which so far has been very well received from a stock performance standpoint.

So, without further ado, I'm going to let Mike walk you through the Valeant story, and then we'll have plenty of time for Q&A. So please join me with that. And make sure you wait for the microphone, for those that are on the webcast. Thank you, Mike, for making the trip.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

All right. Thank you for having us. I also have with me Mariusz -- now I'm going to try to pronounce his last name --

Mariusz Gajowniczek - *Valeant Pharmaceuticals International, Inc. - President, Europe*

Gajowniczek.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

-- who is our President of Europe. We have -- we operate in Central and Eastern Europe, 22 countries. And on a go-forward basis, \$600 million to \$700 million business; so one of our largest businesses. So he's also available for questions.

(multiple speakers) You want me to --? (multiple speakers) Okay, I'll sit over here. So, just a quick overview. We are an international company but not a global company. We really have multiple different businesses, most which are completely independent of each other. It's a bit of a function of history. There's obviously some negatives associated with that, but also some real benefits in terms of the diversification.

So, in the US, we focus in really two areas, dermatology and neurology. But frankly, it's really dermatology. Neurology is where our bunch of legacy products reside -- legacy from the old Valeant and from the old Biovail, who we merged with last year.



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Canada is a classic specialty pharma business where most of our products are in-licensed from other people. Australia is an OTC business, mostly in dermatology. And then we have two large private generic businesses, one in Central and Eastern Europe I talked about, and the other one in Mexico and Brazil.

We have over 500 products this year. We'll do roughly -- slightly over \$2.4 billion. Our largest product is less than 5% of our revenue, so, kind of a different model than most pharmaceutical companies. And we also spend not a whole lot on R&D. Most of our innovation comes through buying assets, although we do have, specifically in the dermatology space, pretty active development set of activities.

The core of our Company is our operating philosophy, which is a little bit different than most pharmaceutical companies. One of my observations at McKinsey was working with a lot of pharma companies, and then having the opportunity to work with companies in other sectors -- like consumer brands industrial companies -- is that the pharmaceutical industry has a lot of very, very smart people and really great management teams, but they have sort of grown up in a bit of a cocoon of very high-margin products. Cost management is probably not one of the attributes of most pharmaceutical companies. So, we apply more of an industrial operating model from a cost standpoint.

We also don't bet on science, so we don't have major R&D efforts. We like to buy in-line products that we think we can grow and take the risk out of -- the development risk out of the equation. Not that investing in R&D isn't maybe a good idea for some companies; it's just not our thing.

We believe in lots of diversified products. We -- OTCs; branded generics; generics, as well as specialty products. Most pharmaceutical companies focus on sort of their top eight products, top 10 products globally, and then focus on sort of the top 10 markets. And that's really where they focus. So we do not do that. We have a lot of products that are \$10 million to \$20 million, and I think we have learned how to manage the complexity pretty well. We think that's a good space to be in. Avoiding the big guys, it's a lot easier to compete not against the Pfizer's and the Glaxo's and the Sanofi's in a direct way. So, that's the basis of a lot of our -- what we try to do.

Assets, we have this mentality that everything is for sale at the right price, and that if someone else is a better owner of any of our assets, we'll be happy to monetize that and return that cash to our shareholders. We -- this industry is not unlike the movie industry, where with all the R&D and then the -- if you're launching a blockbuster product, you spend an awful lot of money and before you actually make your first nickel.

We take the opposite approach. We do not -- as we launch products, we make money on the first year on them. So, maybe we leave a little bit of money on the table in terms of the absolute size of those products, but what we don't -- by doing that, we actually generate a fair amount of more cash and we don't make mistakes in terms of over-investment.

Business development is key to our strategy. We don't have business development people. The line people do business development. Mariusz does it; I do it; and we think that's a better answer than having a staff function do the deals for us. We make changes very quickly -- people changes, country changes. Decisions don't improve over time. And speed is really our main asset, I believe. And finally, fact-based decisionmaking.

So, that's there the core of our Company and what we do. And so, it is a little bit different, I think. And we have developed these principles together, and we sort of all believe them and all try to operate. The Company has changed a lot. I joined, as Greg said, about 3.5 years ago. We had -- we were about a \$870 million company then. This year, we'll be greater than \$2.4 billion. We have -- we actually shrank the Company first. We sold Western Europe because we didn't believe that was a very good market to be in. So we're down to about [\$600 million]. And we're now four times that size and we will continue to grow rapidly. You can see the other metrics.

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Our footprint -- again, it's international, but it's not global. We will not operate in a number of markets. We're not getting back into Western Europe. We're not going into China. We're not going into India. Everyone else is going there, so we'll let them go there. But we'll find other markets that we think are good and growing, but avoiding that.

What we have -- our focus is to continue to grow our business outside the US. This number was -- in the old Valeant, we were less than 15% of our sales in the US. When we merged with Biovail -- and one of the big reasons for doing that was to get a corporate tax structure that was more favorable. That increased our business to 65% outside -- within the US. We've shrunk that already down to 55%. That doesn't mean we won't keep growing in the US; it just means that we'll grow more quickly outside the US.

Europe's been a focus in the last year. Last year in Europe, we probably had \$170 million of sales. Next year, we'll be over \$600 million. We made two sizable acquisitions -- PharmaSwiss and Sanitas. We now operate in 22 countries and in the brand generic and OTC space primarily.

How do we measure ourselves? We measure ourselves -- it's really cash flow -- either cash EPS or cash flow from operations, which is the real metric. And then we'll focus on organic growth to make sure we're growing the assets that we buy. Biovail was sort of not growing at all. Valeant was growing about 10%. They were both equally-sized companies, so the average growth rate of the two was about 5%. We believe we can grow this year even 8%, although year-to-date, we're below that. But we'll see what we can do the rest of the year.

So that's an important metric for us. It's an important metric for the investors. And there's probably a fair amount of skepticism right now in terms of our ability to improve that organic growth rate. So I guess we'll see what happens. Longer-term, where obviously -- and we are very committed to patients, customers, employees; everyone thinks that we're just ruthless and actually we're not. We actually have a pretty happy group of employees. We just went through our employee survey results, and very high participation and about -- over 80% of them think it's a great place to work, which we'll hold up to anyone.

So, like the core management principles, I've talked about those. And our long-term objective is, quite frankly, to become the leading specialty pharma company. And how we measure that is return to shareholders. That's the metric that we're held accountable for; we're paid on in terms of our -- the unique design of our equity program. And that's a standard that we'd like to achieve.

So, with that I'll end. Mariusz, you want to come up too?

QUESTIONS AND ANSWERS

Gregg Gilbert - BofA Merrill Lynch - Analyst

Thank you gentlemen. Mike, just -- we'll kick it off on the subject of organic growth, given that I'm sure it's quite a focus in meetings and et cetera, since the last quarter. First of all, definitionally, are we talking organic sales growth or organic revenue growth, in terms of the 8% goal for the year?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

It's product growth.

Gregg Gilbert - BofA Merrill Lynch - Analyst

So, product sales?



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Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Product sales.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Okay.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So it's been products we have in the market. We do have some small service component because we have some JVs, where there's some service revenues in a very small dermatology service business -- \$25 million, \$30 million. So that we're not measuring in the numbers. But all the product growth that we have is how we measure it.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

And on that basis, first half is 5.5% growth roughly --

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Correct.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

And you're looking for 10% plus for the year, so can you talk -- I'm sorry, 8% plus for the year -- can you talk about some of the back-half drivers that can offer some comfort to folks? I know comps are part of the issue but the specific drivers of growth?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes, so, I think there is a number of them. In the US dermatology business -- which the gross slipped to 2% last quarter and it has historically been double-digit growth -- we expect that to return back to double-digit growth, maybe even high double-digit growth in the second quarter. We were switching out Zovirax, which is one of our larger products. It's about -- it was \$160 million worth of sales last year. It will be higher this year. What we did is we introduced a new tube size, and we then purchased back from the retailers the old tube size, because it was actually economic to do so. When you purchase back parts, that's a negative sale.

So, Zovirax actually shrunk year-on-year in the second quarter. It's very well growing. So, demand did not shrink. It was just booked sales of strength because of how we handle that inventory. So that will return to growth and will help Acanya, Atralin, and CereVe, which are our core three products, are all growing very nicely. So, high, high, high double-digit growth. So dermatology will return to growth.

Neuro and other, which is the other US business, Wellbutrin is doing worse than we had hoped. And it's a genericized product, and so we have the -- what's left of the brand. Quite frankly, there's not a whole lot we can do -- well, I should say that so far, we haven't been able to figure something that we could do. Maybe you guys would have some ideas for us; but maybe someone else could do a better job. But so far, we're having difficulty because Mylan has been very aggressive on pricing and -- so that's that issue.



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So we expect that to decline 5% to 10% overall, so it means the rest of the growth has to be pretty strong. Canada has been growing strongly in double digits and will continue to do it with three launches in the back-half of the year -- or four launches. We've launched two of the four products already, and two more on the rest of the year, which will not really accelerate growth this year because they're new launches, but will going forward. But the business continues to perform well in Canada.

Australia, similar -- we've been double-digit growth organic and that will continue. And then Latin America and Europe, again, we have a combination of product launches and either new parts being launched that we bought generic dossiers and/or products that we've had in one country and introduced them into a different country, different forms of growth. So, again we expect those units to continue to have double-digit growth, which they have historically had.

One thing that we do not measure ourselves on quarterly -- on a quarterly basis. So no one gets paid -- we don't manage the business for the quarters. For example, we made a decision last quarter in Mexico to turn down an order the last day, which was I think \$5 million, which is not insignificant for that size business, because the distributor wanted a discount and we said no. We don't give discounts and we'll wait. So, we waited until this quarter and didn't have to do it.

So Mariusz and others are not -- so because of that, we have lumpy -- a little bit of lumpiness between quarters too, because we try to do what's right. So if you've looked at the history, as Greg has, of our Company, you'll see large differences quarter-to-quarter in terms of growth rates, which don't reflect the underlying business. It's more just ordering patterns.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Can you talk about the relevance of what was the 10% goal became 8%, because the Biovail asset was no growth? Was that an aspirational target when you put it out there? Because your growth rate at that time was quite a bit higher. Was 10% and then 8% sort of a long-term sustainable goal that you had in mind, because it was higher than the industry? Or what's the symbolic importance of that number, if any? What do you think about the next several years?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

So, our aspiration -- the aspiration we have for each of our units is to grow 10%. That's an aspiration. It's not guidance. It's what we ask our businesses to do. If we have a business that we believe can't -- organically -- if we have a business that we believe can't get to roughly that level, it's probably not a business we want. So, we -- the biggest issue we have now is neuro and other. The problem is many of those assets are tax-advantaged through Barbados. And so the easy way to get our organic growth up would be to sell a couple of those assets -- but that would be the wrong thing for shareholders.

And organic growth is one metric, but our overall job is to return returns to shareholders. So, if we have a tax-advantaged product like Wellbutrin where it's worth more to us than anyone else, given our tax structure, we'll live with the negative organic growth. But over time, the aspiration -- 8% was what we thought we could do this year, given our mix of products. Next year, we'll see what figure we come up with. But over time, we would hope to get back to over 10%. That's our aspiration.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Do you care much about the mix of volume versus price within the organic picture?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Yes, when we calculate the end of the year, historically, it's -- the growth has been -- the three years we have data for, and I don't expect this year to be much different. It's hovered between 94% to 96% volume and the rest is price. With the exception of the

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US, we can't take price. And often it's negative price in other parts of the world. So, in Europe, it's probably negative 1% or 2% [price].

Gregg Gilbert - BofA Merrill Lynch - Analyst

We've heard from other companies about sort of the European pricing erosion for our branded portfolio, which is quite a bit different for a big pharma company than it is for you. But can you talk about how you -- what you assume about your book of business in terms of price erosion in a normal environment versus maybe an abnormal environment?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

(inaudible - microphone inaccessible)

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

(multiple speakers) Maybe we can get a -- can we get a mic? Why don't we just take one of the hand mics.

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Of course, in my region, in the European region as well as in other regions, price erosion is not a novelty. This is the continuous process which has connected mainly with the stress from the two sides. One side is the composition, of course. The second is authorities. And this second part is connected with the necessary settings in the health system.

Actually it's up from year-to-year. We hear for a long time different stories about the price erosion, about the few changes in foundation of the expenditures for drugs about the generic-generic prescription. And actually what's what is the final of those rumors and those programmed actions is a normal in the region something like 2%, 3%, sometimes 4% yearly price erosion. This is the result of normal every-year actions. So, I would not say that in the future we should expect anything specific.

Gregg Gilbert - BofA Merrill Lynch - Analyst

This year is normal in that regard?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Yes.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Okay. Teva mentioned a little bit about Poland without a whole lot of specifics being challenging next year. Can you talk about the size of the Polish business for you? Its importance and then what will happen?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Sure. Out of \$600 million in Europe, Poland is \$250 million roughly, so we are number two in respect of units sold and number seven in the value. And actually, it's true that the authorities have been planning the new pharmaceutical program and new pharmaceutical law to be introduced in 2012.

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The first discussed version was pretty tough, including, for example, 3% tax out of the reimbursed product sales for the Company, that was negatively voted by the President. Finally, that would be the regulation which is based on the three factors. One factor is that there will be payback for the products related to these sales from the previous period. So, actually a kind of the growth of the sales will be punished not significantly but anyhow.

The second is that the spendings for the reimbursement will be pretty fixed to the amount of these spendings for the overall healthcare. 17% of the overall spendings for the healthcare will be spent for the reimbursement of the pharmaceutical products.

And number three is that all the rebates and all the special sales actions will be terminated, and all the fixed margins for the distribution will be introduced. That means that the composition will be much more on the side of the scientific and merit, and less on the selling conditions.

Gregg Gilbert - BofA Merrill Lynch - Analyst

So what would you say the overall net effect of those things are for 2012 versus '11?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Well, I would say that would be influence on the earnings since the payback will be introduced, especially this is a bit more difficult for the new launches, because the merger month is a year or two-year's sales. So for the products, which are very quickly increasing sales, that would be more difficult.

However, to sum up all the situation for our Company, outside of the negatives and positives of this arrangements will be somehow balanced. There are some positives, especially for us, for example, these fixed margins and special actions. We used usually to act not using these kinds of the rebates or product for [offend] actions, which was massively used by the competition. So they must come back to these sales somewhat set of the activities since we are a kind of [demonstration] there.

Gregg Gilbert - BofA Merrill Lynch - Analyst

So the government is essentially fixing the price -- the margin structure of manufacturers and they have complete transparency into what your margin really is?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Yes.

Gregg Gilbert - BofA Merrill Lynch - Analyst

So, topline sales pressure --?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

No. It's not our -- it's the distribution margins. So basically a lot of our competitors get big discounts at the end of quarters to get products in. We don't do that anywhere. We just -- so that's actually going to help us because --

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Gregg Gilbert - BofA Merrill Lynch - Analyst

They can't do it.

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

-- they can't do it.

Gregg Gilbert - BofA Merrill Lynch - Analyst

(multiple speakers) And you have a share gain, is that what you're saying?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Yes. And then capping a 17% as healthcare, which will favor cheaper products, which is ours. So there's [opposite] (multiple speakers) --

Gregg Gilbert - BofA Merrill Lynch - Analyst

The bottom line is you think about your portfolio of businesses, this is maybe a minor hiccup along the road but it doesn't change your enthusiasm about the region --?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

I actually think Mariusz said it will balance out to be no change. So it's not a minor hiccup; it's business as usual. So, and also 40% of -- only [40%] of our business in Central and Eastern Europe was reimbursed to begin with.

Gregg Gilbert - BofA Merrill Lynch - Analyst

(multiple speakers) So these initiatives only affect the reimbursed portion?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

(multiple speakers) The pricing ones do. The distribution actually affects both, which is a helpful influence. So that -- some of the helpful ones influence all of our business, so the pricing [has] negative on a portion of our business. So that's why net-net, it might actually be a positive.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Are there any other structural changes in any of the markets you manage that we should be aware of over the next year or so, other than just generalized pressure on government budgets?

Mariusz Gajowniczek - Valeant Pharmaceuticals International, Inc. - President, Europe

Well, no. There are, of course, the plans of governments for certain changes, but those are, I would say, not very much different from year or two-year usual changes. So nothing exciting.

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Gregg Gilbert - BofA Merrill Lynch - Analyst

Next question upfront. Sorry you had to wait so long. I'll hand you this mic. Do you have another one?

Unidentified Audience Member

(inaudible - microphone inaccessible)?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Yes.

Unidentified Audience Member

(inaudible - microphone inaccessible)?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Yes, our business in Mexico is both OTC and prescription. There's a whole category of products in Mexico called Similares. And if you go down to Mexico, the guy looks like the Kentucky Fried Chicken guy with a big white mustache. All these chains are out there and he's Dr. Similare, and those are the cheapest products you can buy. You go in and they're very cheap. The problem is they're not -- they don't have to do any studies. It's just a pill and they call it something, so they don't work.

So there has been legislation in Mexico to outlaw that because it's actually taking advantage of the least-educated population, because those are the ones that go there and basically waste their money. So, it's taking effect. It's not like where you would have in the UK where a law takes effect and it happens overnight. It happens a little bit slower down there and it will be more gradual. But that legislation is in and so, those sales will shift over into slightly higher priced branded generics, which is where we play.

Unidentified Audience Member

(inaudible - microphone inaccessible)?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

It's not insignificant. It's maybe 20% to 25% of the market (multiple speakers) -- volume.

Unidentified Audience Member

(inaudible question - microphone inaccessible)?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

And value would probably be -- it's more than -- the pricing is about 60% to 70% of the brand generics. So, [60%] so probably [15% to 20%].

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Unidentified Audience Member

(inaudible question - microphone inaccessible)?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, technically, the law is in place now so it's illegal to put (laughter) -- so I don't know. Every -- one thing I've learned about from Mexico is it always takes longer than you think. So, I think it will be gradual. I think three or four years from now it probably be fully implemented. But I would assume sort of almost a straight line for four years of this change going in.

Unidentified Audience Member

(inaudible question - microphone inaccessible)?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

In terms of our -- it's hard to -- in Mexico, you don't really need a prescription. So you go down and so it's really hard to define what's an OTC. But technically, an OTC I guess is in the shelves in the pharmacy. And then the prescription you have to get -- it's up to the pharmacist, which usually aren't pharmacists either. But -- so it's a little bit -- it's hard to say because -- but technically, our OTC business would be probably 30% of products that are sold not behind the prescription counter. So it's a bit loose.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Just so I understand, some of these are industry questions from our company. How do you describe the mix of your revenue in Mexico? 30% OTC, 70% prescription?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

And a portion that is generic/branded generic or brand?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

We have no patented products in Mexico so it's all branded generic or OTC brands. We do do, like for Wal-Mart down there, they have a generic line just like they do in the US and (multiple speakers) --

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Private label.

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Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Private label. So we do provide some generics there too. So, they're sold as brands, just not our brand. So that's -- so if you include that, then the rest is sort of branded generic.

Unidentified Audience Member

Given the recent turmoil in FX market, do you expect any effects? And how should we look at the FX delta on the growth rate? The second question -- what's happening to the banks today? I mean, obviously, leveraging has been a big part of your very successful story. Do you detect a change in the willingness of banks to go along and finance -- just on the base of what's happened in the last month or two? Thank you.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

So we -- certainly, foreign exchange or the -- we've gone -- since I've been here, we've gone through some pretty wild swings of foreign exchange over the last 3.5 years. It has an impact on our topline for sure.

It doesn't impact our organic growth because we normalize for that, but it will have a significant impact on our total revenues. It has very little impact on our profitability, though, because we're naturally hedged basically. So, in Central Europe, with the exception of some API -- just some that come from Western Europe or the US, everything else is in local currency. Same with Latin America. So we're fully integrated everywhere in local currency. So it doesn't have much impact on our bottom line.

So, the banks -- we're actually in the markets and financing now, we're working on putting another tranche of long-term financing in. So, we have not seen any change. There's a ton of banks that want to work with us and do it. And I think the reason why is, we're part of a unique healthcare story. And most banks like to have a balanced portfolio in healthcare, in that we're so diversified, in terms of both geographies and products, and with very little in terms of patent cliffs, that from a debt standpoint, it's just a much better profile than basically any other pharmaceutical company, where we just have two or three products that represent vast amounts of their cash flows often geographically centered in either the US or Western Europe. And so that's what they tell us, at least. But so the short answer is no, but that could change tomorrow too.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

So on that point, when do you expect to have long-term financing in place for the ortho and the dermic transactions?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

At the appropriate time.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Okay. Maybe switching gears a bit, looking at Biovail can you talk about some of the positives that came out of that versus some of the challenges that you didn't foresee?

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Sure. So we enjoy our new corporate structure. We like that a lot. They have a great manufacturing facility in Steinback, Manitoba, which is -- which we're putting some more products in. It does a lot of partnered manufacturing too, so they do a lot of manufacturing for J&J, for 4US, for Teva, for a number of other companies.

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It's very well run and probably our best facility. And because of our tax structure, manufacturing in Canada provides great tax advantage to us. So, any increased costs in Canada versus some of the Third World countries that you might want to manufacture in, are offset by the -- so it makes a very low-cost facility.

We think Zovirax is going to turn out to be a very, very nice product for us. Now that we have [Zureze], which, in a sense, provides some nice protection and upside, we think we can build a very interesting franchise there. And if we're successful buying Afexa, which -- they have a very interesting OTC medication as well. So we think that we can get this whole -- that could be an interesting franchise.

The Canadian business with Biovail had about a \$50 million business and we had about a \$50 million business in Canada. And we put the two together, and through some new product launches next year, that's going to be \$250 million to \$300 million; so obviously, both -- it's growing very, very nicely. So that's very -- so those will be some of the positives.

Gregg Gilbert - BofA Merrill Lynch - Analyst

On the other side of the coin?

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Well, we've got Wellbutrin. (laughter) So, and some of the partnered -- it's no one's fault. It's not that they did anything wrong. It's just Wellbutrin. And then they had a set of products that were partnered products, so all the commercial efforts are done by other companies. So, you can have zero impact. We just waited until the end of the month and see how much they sell and collect the check. So we have zero and zero decision-making rights.

So, I always hate to be in businesses where you can't control it yourself because it's just -- it's why I don't like R&D either, right? Because it's subject to -- it's going to work or not work and it's kind of out of your control, so.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Would you say on balance overall, you're pleased with -- if we could somehow separate the tax part of the picture, are you pleased with how the transaction has progressed and what it's brought to the table? Or is it impossible to not consider that huge financial drive or [call it] tax.

Mike Pearson - Valeant Pharmaceuticals International, Inc. - Chairman and CEO

Oh, even if we didn't get a tax advantage, would it have been a good deal? Definitely. Because of the cost reduction, quite frankly. We were sort of two similar sized businesses and at the end, we are still the same size as we were before we started. In terms of our corporate functions and our US commercial, it's been -- so it sort of proves that you don't need to keep growing your administrative functions and some of your sales and marketing just because you get bigger.

Gregg Gilbert - BofA Merrill Lynch - Analyst

Right. Are there others out there before I continue?

I want to talk a little bit about the Cephalon -- proposed Cephalon transaction, because it was somewhat of a departure -- well, quite a departure from prior deals you've done at this Company, both in terms of the size and the fact that it was less friendly of an approach. So what's come out of that experience for you? And how has that shaped what you're doing now on the M&A front?

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Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, first, I don't think it was -- in terms of the fact that we made an unsolicited offer, it was certainly different than what we've done in the past. In terms of the type of company, it was similar -- I'd argue similar to Biovail, which was one where there was huge financial opportunity, and then some strategic assets that we were comfortable with, then other things we would have sold. So, because -- so from that standpoint, it was the same.

I'm sorry, your other question?

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

So, I mean, I guess the learnings from that as you've applied for, so to the extent the unsolicited part is different, for example.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Well, sure. No, I think --

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

I'm sure distracting, time-consuming as well.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

It actually wasn't too distracting or time-consuming. We went in and we were out pretty quickly. And so, we'll use it again if we need to. It's always better to do it friendly. That's our preference. Since that time, we've done a bunch of friendlies. So, it's not our preferred mode of operation.

If there's something that makes a great deal of sense for our shareholders, then we'll do it. We will -- we're pleased we remain disciplined. I know we've been criticized by a number of investors for not paying a higher price if it clearly going to -- you know, because we could have paid a higher price. And it still would have created value.

But I think maybe we were a little selfish -- if we don't really -- unless we can get what we believe is an extraordinary return, we're not going to do a big deal because a big deal means if we did do it, it would have been distracting. It would have taken a year to sort of integrate the whole thing. And that would have -- and it would have taken our leverage up to where we would probably have had to wait a year to continue the rest of our strategy.

So, if the thing is going to take us a year, it better be an awfully good deal for our shareholders. So I think that discipline is -- and the discipline helps us in other deals.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Right. So what would you say your most important priorities now are from a VD standpoint looking out for the next couple of years?

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Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

I think that it's hard to say what's most important because that's not the way we operate. What I can say is the types of -- where we would like to be in a couple of years. We'd like to clearly be well over \$1 billion in sales in Central and Eastern Europe. We'd like to be at least \$1 billion down in Latin America as well, in terms of we want to start moving towards market leaderships in the markets we're in.

And, at some point in time, we'll probably get into Asia, but not in China, not Japan, but in other parts of Asia. And we will continue to invest in the US but only in areas that are not subject to reimbursement pressures. So, like dermatology, nearly all of our products are sold to the government. So -- and segments that are not reimbursed directly by the government.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

One last one and then we have to wrap up.

Unidentified Audience Member

A very big part of your profit is Zovirax, which is very fortunately under much threat of generic [utilization] because of the clinical trials evolving; but demand is going down with prescription. And I assume at some point it will be elasticity of demand with the price hikes that you perform every year.

So, can you try and help us find the balance in your ability to raise prices every year? I mean, where does it stop? How we should model it in the next couple of years? Thank you.

Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Yes, sure, we're not going to sell [one to] for \$1 billion (laughter), so don't worry about that. Although we'd sell one for \$1 billion if someone wanted it.

Zovirax is actually interesting. It has not been promoted for years, so basically, Biovail owned it but the majority of the income for the product went to Glaxo until we bought it out. So the margins were terrible. Right? Because the deal -- when that deal was just -- so they didn't promote it. They had to pay for promotion but they used a CSO and it really was not effectively promoted.

So, now we're promoting it with our Durham sales force and it's interesting. If you look at the scripts for dermatologists, for the first time, they're starting to grow. So, we actually think we can start growing this product with the right positions through our sales force, which is a great piece of news, right? Because -- and we think with [Zureze], which is -- actually it has a steroid in it as well, but it's more efficacious because it's a new product to actually bring in.

And the way we've priced [Zureze] to be 25% more expensive than Zovirax because it's better. And we think we can start building it. So we believe -- what we'd like to do is actually grow the product. We're not going to grow it double-digit in terms of volume, but if we can stay wise and grow it a little bit, and then have modest price increases -- single-digit price increase each year -- we can make it a double-digit grower for the foreseeable future. So, that's how we think about it.

Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Thank you all. Thank you for coming, guys.

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Mike Pearson - *Valeant Pharmaceuticals International, Inc. - Chairman and CEO*

Thank you. Thanks for inviting us.

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