

# Citron's Last Word on Valeant

**We are Not Dialing Back Our Warning on Valeant ...  
We are Dialing Back the Focus on Citron  
to Investigate and Report the Vast Spectrum of  
Claims Now Piling Up Against Valeant.**

For over 14 years, Citron Research has been uncovering stock fraud and unique angles to stories that have gone either unnoticed or misunderstood by either Wall Street or the main street media. During that time, our work has preceded and predicted regulatory enforcement [in over 50 instances](#), more than any other publication we know.

Just four weeks ago, Citron released research criticizing the drastic price hikes of pharmaceutical products by Valeant and commenting on the unsustainability of their business model. At the time we put out a price target of \$130. Citron's story was overshadowed on that day by the letter requesting Valeant be subpoenaed by Senator Bernie Sanders. Only 5 days later, on October 2, Citron released another piece of research discussing the myth of Valeant's organic growth. That day our research was overshadowed by the biggest one day stock market reversal in the last four years.

**Just two weeks ago, nobody in the investment community had ever heard of Philidor.**

## **Then the bomb hit.**

10 days ago, we uncovered the court document and the online privacy statements that decisively connected Valeant, Philidor, Isolani and R&O (plus West Wilshire and Orbit Pharmacies) in a web of purposeful and intentional corporate non-disclosure.

The court document stated that Valeant was either the perpetrator or a victim of a "massive fraud". Post that filing, nearly 30 days had gone by with zero response from Valeant. To Citron, this was legitimately Enron-esque: **The creation of a network of undisclosed entities in order to alter financial results, purposefully kept out of sight, and outside the scope of disclosure to the investing public.** Purposely, Citron placed the price target on Valeant at \$50 – unlike Enron which we all know went to 0. Citron Research stands by our Enron analogy, as we now see that Valeant has engaged in manipulation of the insurance reimbursement system, and very possibly the law, to alter their financial results.

**\*\*For those of you expecting a “kill shot”, you can stop reading here.**

While Citron has been at the nexus of information on this story, we will not be releasing new allegations against Valeant in this piece, as we believe that it is not our responsibility to be the judge, jury, and executioner of the company’s deeds. Yes, we have reviewed numerous data points strongly suggesting that Valeant’s operation is far “dirtier” than just Philidor, we are passing all new information on to the mainstream media investigative reporters, whose legal teams are far deeper than those at Citron.

In the meantime for those of you who want a voyeur experience of what is actually going on right now at Valeant, we suggest you peruse the Café Pharma message boards. (Of course, they are mostly anonymous, so be your own best judge of the authenticity of each post.)

<http://cafepharma.com/boards/forums/valeant-pharmaceuticals.84/>

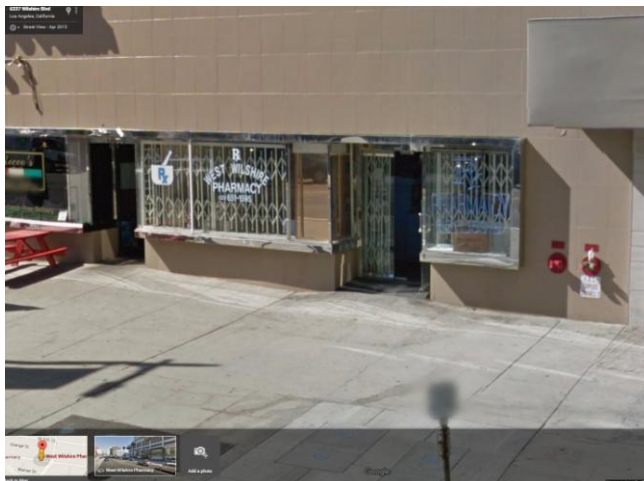
**NOTE:** Neither Citron nor anyone associated with Citron has ever posted on any of these message boards.

In order to complete a previous claim, Citron will attempt to answer the question, **was Philidor just perpetrating Insurance Fraud or also Fraudulent Billing?**

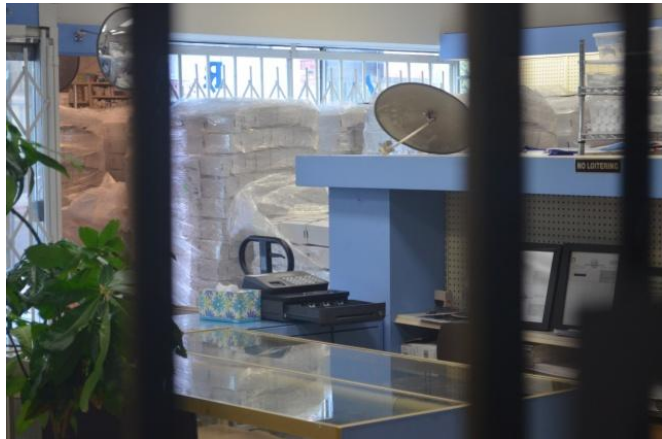
As we said before, if we had subpoena power we could prove everything, but we don’t. And to think that Valeant would create a network of shadowy pharmacies, yet not stuff channels, through un-ordered prescription refills if not outright accounting shenanigans ... well it just doesn’t align with the “win at all costs attitude” of the company’s culture.

Citron has visited [R&O Pharmacy](#) personally. The court docs provided plenty of basis to question how a “neighborhood pharmacy” of this size might reasonably have received, processed, and shipped \$69.8 million in prescriptions in a few months. We’ll see what the audits show.

Have the auditors ever been into West Wilshire Pharmacy? Does this look like your neighborhood pharmacy? Or Valeant’s secret strategic channel that’s just too good to disclose to investors?



West Wilshire Pharmacy, part of the “Philidor Network of Pharmacies”



This operation is consolidated into Philidor, which is consolidated into Valeant. Good luck with the audit.

## Valeant is Uninvestible for the Foreseeable Future

Citron Research believes that Valeant will trade at much lower levels than its current price and that the stock is toxic until many issues are flushed out.

Goldman Sachs apparently agrees, commenting this morning that it is unsure how much of a risk the Philidor situation will pose to Valeant's overall business.

**"We expect a much longer road than we previously thought for the dust to settle and for VRX to be able to regain enough investor confidence to attract a sufficient amount of new money into the stock."**

*-- Goldman Sachs research note, November 2, 2015*

Citron notes Goldman's new target, \$122, is significantly lower than it was just four weeks ago.

Here is a list of **some but not all** of the immediate concerns facing Valeant and its shareholders:

- 1) Valeant's civil and criminal culpability for the actions of the "Philidor Network", stretching back to its creation. These include but are not limited to: insurance fraud, mail fraud, accounting fraud, and HIPAA violations, perjury by company employees in state regulatory filings, and potential civil and criminal RICO overhangs.
- 2) [The harsh financial consequences of prescriptions improperly reimbursed through the now cancelled PBM's contracts](#), [reference Article 7 in this link] which all explicitly specify consequences, including audits, with retroactive refunds plus fines for **each** wrongly reimbursed prescription, retroactively applicable for at least three years.
- 3) Loss of at least half, and possibly all, of Valeant's Dermatology drug channel. We know only what the company discloses about the loss of the Philidor channel. But what will the sales teams do now? Will they even stay? PBM's are now all alerted, and will be fine-tooth-combing **every Valeant derma prescription for years**. This reputational damage is not so easily undone.

It is Citron's opinion that the PBM's will be scrutinizing **all future Valeant prescriptions**, not just dermatological drugs.

- 4) Heightened scrutiny from auditors that will extend through **all** Valeant's distribution channels – including, of course, the entire “consolidated” Philidor network, as well as Europe.
- 5) Earnings restatements -- How can these possibly be avoided, given the volume of manipulated prescriptions?
- 6) Responding to dozens of subpoenas and whatever charges come from the investigations
- 7) The end of Valeant's drug price raise strategy.
- 8) The end of Valeant's acquisition strategy.
- 9) Eroding revenue base across nearly all product lines due to reputational damage. All drugs are melting ice cubes due to improved treatments, generic competition, and aging patents. All this reputational damage simply accelerates the rate at which Valeant's ice cubes melt.
- 10) Vulnerability to unfavorable tax treatment rulings from US as well as Canadian tax authorities, which are conducting reviews of several years of Valeant's past returns as well as going forward.

.... And finally,

- 11) Dramatically increasing CDS spreads on Valeant's debt

The investment thesis -- the only investment thesis, is now this: In the face of all these headwinds, will Valeant actually be able to generate sufficient cash to service its debt load? It's a tough call. And since the cost of insuring against default has skyrocketed, as its [debt ratings sag](#) and CDS spreads have widened, it's no longer possible to hedge the risk at reasonable cost.

"VRX' CDS is trading at a spread of 650bps, implying a 43% probability of default."

-- Zerohedge 10/27/2015

<http://www.zerohedge.com/news/2015-10-27/valeant-hit-downgrade-warning-sp-which-sees-reputational-legal-and-regulatory-risks>

## Mr. Ackman

Citron listened to the painfully lengthy conference call with Mr. Ackman last Friday. Here are our takeaways.

Mr. Ackman's narrative would have you believe that Valeant is a well-managed, high-integrity company with a terrific strategy and wonderful products, that unfortunately got caught up in some unpleasantness in one small part of its business -- responsible for less than 7% of its revenue. So basically, no harm, no foul.

1. Mr. Ackman does not have a true grasp of the quality of Valeant's underlying business. For example, while he singles it out for an extraordinary testimonial on the call ("Jublia is a "great drug" ... "see your doctor, get it at CVS!") he does not acknowledge that the one drug he showcases has the lowest efficacy of any drug in the portfolio, along with the most competition, at price points 99.99% lower. We refer him to the YouTube link below.
2. Mr. Ackman is analyzing the company with the same model he created three months ago, not adjusted for declining cash flows from the end of price raising power, and the consequences and reputational risk of the Philidor debacle.
3. Lastly, Ackman omits any change in financial analysis that shows changing conditions at Valeant accounting for increased scrutiny or declining sales in competitive products.

If Mr. Ackman feels so much moral indignation about a company selling health shakes to people and takes such umbrage at their sales channel that he launches a full on jihad against them, how can he stand by a company that charges over \$300,000 a year to cure Wilson's disease?

If a person does not get their [Wilson disease medication Syprine](#), acquired by Valeant, they die a slow and painful death. After increasing the price of this a simple medication, which has been available for 50 years and costs just \$100 in Europe, to over \$300,000 per year, the co-pay alone chokes out families with someone suffering from one of the worst diseases on earth.

Where is Mr. Ackman's moral indignation about that?

It was truly astonishing to hear Mr. Ackman complain about Citron. Did we create Philidor or just report on it? Do we have Senator Sanders in our back pocket or just report on it? Did we try to exploit the US Healthcare System? Do **we** aggressively market ([deceptively](#), according to some reputable dermatologists – this link recommended especially for Mr. Ackman) a foot fungus ointment that costs more per ounce than the Chateau La Fite you drink when you are thirsty??

Was it Citron who created Philidor? Did Citron make the PBM's drop Philidor? Did Citron make the Sequoia directors quit?

As for his complaint on timing of our report, he knows better than that. Mr. Ackman takes large bets on Wall Street mainly with other peoples' money. Sometimes you win, sometime you lose. Citron believes Valeant will be a colossal loss.

BTW, Mr. Ackman should answer this question: Did he actually **buy** two million more shares of Valeant when the price plunged, or did he have 2 million shares **put to him** in an option position gone upside down?

## Conclusion

Our work is done here. We are looking forward to moving on to new stories. If only every story Citron wrote about received 1/10th of the attention Valeant brought, the market would be a different place. We understand our limitations when it comes to working with former employees or industry insiders to obtain the documents that will show how dirty this company really is. We would rather refer these people to responsible mainstream media contacts with large distribution and staffs, who are prepared to deal with the possible years of litigation that surround such information.

We are proud of our work on Valeant and we thank our compadres at Bronte Capital and [SIRF](#) for doing terrific work. While Citron has received much of the attention, we want to make sure everyone continues to read [Bronte Capital](#) for its in-depth analysis of Valeant that is sure to continue.

**I'm out of words on this one ... NEXT!**