



# Valeant: Could this be the Pharmaceutical Enron? Citron has the Smoking Gun!!

October 21, 2015

Just four days ago in world of Valeant, the great growth stock, no one had ever heard of Philidor RX. The country was angered and disgusted by Valeant's business practice of raising prices on pharmaceuticals acquired in rapid acquisitions while slashing research and development. But no one had ever paid attention to how these drugs were distributed.

On Monday morning before earnings, a report came out of [SIRF, uncovering undisclosed relationships with specialty pharmas](#), namely Philidor RX. Most importantly, the article introduced Wall Street to a court filing made by a company called R&O Pharmacy, filed with the California District Court in September, which stated the pharmacy had received an improper demand for payment from Valeant to the tune of \$69 million. The New York Times increased its scrutiny on Philidor by questioning [if its operation was the target of subpoenas](#) recently served on Valeant over [its pricing strategy, covered the prior week](#).

**This is not where the story ends; this is where the story begins.** With its quarterly earnings report scheduled for first thing Monday morning, Valeant was well aware of the scrutiny that was about to come down on Philidor and the R&O lawsuit. It came prepared for the conference call with pre-written questions and answers -- one about Philidor, and one about R&O -- in its slide deck. This is where the cover up begins.

We will let the New York Times start:

“Valeant had said little about Philidor until Monday, when J. Michael Pearson, Valeant’s chief executive, revealed on his company’s quarterly earnings call that Valeant had purchased an option to acquire Philidor late

last year. He said that Valeant consolidated Philidor's results in its own financial reports."

An **option**? To acquire a company to which you are the only customer? **Why** would Valeant, a major **big cap pharma**, a **darling** of the hedge fund crowd, a **suitor** of Allergan, a huge headline story maneuvering to **acquire top-tier pharmas** like Salix, Bausch & Lomb, etc., etc., be secretly maneuvering to buy a reclusive specialty pharmacy with a dubious ownership structure? And then consolidate its financials? Why was this entity NEVER disclosed in any prior company disclosure?

## What is being covered up??

In the same slide presentation we read Valeant's explanation of a mysterious court document. R&O Pharmacy demanded **pre-emptive relief in California Superior Court** for having received a demand for \$69 million from Valeant, stating it had no invoices from Valeant. Valeant's explanation was this one slide:

**Why did Valeant Send a Letter to R&O Pharmacy?**

- R&O is in one of the specialty pharmacies in our network
- Valeant shipped approximately \$69 million at WAC, approximately \$25 million in net revenue to Valeant
- R&O sold a substantial amount of Valeant product. Any products R&O dispensed to patients were recognized as our revenues and are reflected in our receivables. Any products still held by R&O are reflected in our inventory
- R&O is improperly holding significant amounts it received from payers

37

**VALEANT**  
Pharmaceuticals International, Inc.

◀ 38 of 44 ▶

So we are to believe that Valeant putatively owns Philidor and is acting as its "puppetmaster" sending the demand letter to R&O for payment? The story seemed a bit far-fetched, but it was somewhat plausible if you wanted to suspend all disbelief.

So here you go everyone: spoiler alert! **Philidor Owns R&O Pharmacy.**

Citron believes the whole thing is a fraud to create invoices to deceive the auditors and book revenue. PHANTOM ACCOUNTS. Here is the reasoning.

## The Smoking Gun!!

From the links below, it is obvious that Philidor and R&O are **ARE THE SAME COMPANY AND SHARE MANAGEMENT.** The same patient privacy disclosure, in fact formatted identically, on both companies' websites. Note the R&O website refers to themselves as Philidor.

**Rx & O**  
— PHARMACY INC. —

R&O PHARMACY NOTICE OF PRIVACY PRACTICES

THIS NOTICE DESCRIBES HOW MEDICAL INFORMATION ABOUT YOU MAY BE USED AND DISCLOSED AND HOW YOU CAN GET ACCESS TO THIS INFORMATION. PLEASE REVIEW IT CAREFULLY.

**It's Your Information.** This Notice describes your rights concerning your health record. The law requires health organizations, such as Philidor Rx Services, to:

- maintain the privacy of your health information
- provide you with this Notice of our legal duties
- describe our privacy practices
- notify you if we have an information breach

We know your health information is very personal and we are committed to protecting your privacy.

**YOUR RIGHTS**  
When it comes to your health information, you have certain rights. This section explains your rights and some of our responsibilities to help you.

[http://randopharmacy.com/downloads/ro\\_npp.pdf](http://randopharmacy.com/downloads/ro_npp.pdf)



**PHILIDOR RX SERVICES, LLC NOTICE OF PRIVACY PRACTICES**

THIS NOTICE DESCRIBES HOW MEDICAL INFORMATION ABOUT YOU MAY BE USED AND DISCLOSED AND HOW YOU CAN GET ACCESS TO THIS INFORMATION. PLEASE REVIEW IT CAREFULLY.

**It's Your Information.** This Notice describes your rights concerning your health record.

The law requires health organizations, such as Philidor Rx Services, LLC, to:

- maintain the privacy of your health information
- provide you with this Notice of our legal duties
- describe our privacy practices
- notify you if we have an information breach

We know your health information is very personal and we are committed to protecting your privacy.

**YOUR RIGHTS**

When it comes to your health information, you have certain rights. This section explains your rights and some of our responsibilities to help you.

[http://www.philidorrxservices.com/downloads/philidor\\_npp.pdf](http://www.philidorrxservices.com/downloads/philidor_npp.pdf)

(Yes we've archived these pages and will republish them in case the links are down by the time you click on them.)

And look! The pharmacies -- **R&O, in Camarillo California, and Philidor RX in Horsham PA,** have **the identical toll free number to reach their Privacy Officer** (at the bottom.) Now that's some service!

**CONTACT**

We have designated the Privacy Officer as our contact person for all issues regarding patient privacy and exercising your rights under the Federal privacy standards. You may contact this person at: Privacy Officer, R&O Pharmacy, 651 Via Alondra, Suite 708, Camarillo, CA 93012, [privacy@randopharmacy.com](mailto:privacy@randopharmacy.com) or toll free at (855) 815-7688.

Effective Date June 1, 2015

[http://randopharmacy.com/downloads/ro\\_npp.pdf](http://randopharmacy.com/downloads/ro_npp.pdf)

**CONTACT**

We have designated the Privacy Officer as our contact person for all issues regarding patient privacy and exercising your rights under the Federal privacy standards. You may contact this person at: Philidor Rx Services, LLC, 330 S. Warminster Rd., Suite 350, Hatboro, PA 19040, [privacy@philidorrxservices.com](mailto:privacy@philidorrxservices.com) or toll free at (855) 815-7688.

Effective Date June 1, 2015

[http://www.philidorrxservices.com/downloads/philidor\\_npp.pdf](http://www.philidorrxservices.com/downloads/philidor_npp.pdf)

**If you dial the fax # on the R&O website and press 1, you will get Philidor RX. It does not stop at an R&O phone.**

And as if this isn't enough, it appears to Citron that Valeant/Philidor have created an entire network of phantom captive pharmacies ... the same privacy notice appears on several other "ghost ship" putative pharmacy websites, as though someone is in process of setting up a whole string of them:

[http://westwilshirepharma.com/downloads/ww\\_npp.pdf](http://westwilshirepharma.com/downloads/ww_npp.pdf)

[http://saferxpharma.com/downloads/saferx\\_npp.pdf](http://saferxpharma.com/downloads/saferx_npp.pdf)

[http://orbitpharmacy.com/downloads/orbit\\_npp.pdf](http://orbitpharmacy.com/downloads/orbit_npp.pdf)

Oh, and as by mere coincidence, these all have the same Privacy Officer contact phone number: **(855) 815-7688**. And these domains were all registered on the same day! **[ LINK ]**

It is apparent to Citron that Valeant has created a network of "pharmacies" as clones of Philidor. Why do these exist? Is it merely for the purpose of creating invoices to report phantom sales or to stuff the channel, and avoid scrutiny from the auditors?

## Is this Enron part Deux??

These similarities are too close to ignore. Does everyone remember during the Allergan takeover battle, Allergan chose the words "house of cards" ? Look at the following similarities between statements by Valeant and those of Enron:

Enron CEO Jeff Skilling, phone call with *Fortune*, 2/14/2001: "It is unfair to us and unethical if you don't take the time to understand our business... we are doing it purely right... people who raise questions are people who have not gone through our business in detail..."

vs.

Valeant Chairman, CEO Michael Pearson, investor presentation, 5/28/2014: "So again, it is unfortunate that Allergan has not taken the time to understand our business... There is a number of inaccuracies in the report that was put out yesterday... They are just factually incorrect..."

Enron CEO Jeff Skilling, phone call with *Fortune*, 2/14/2001: "[Enron] is a very simple model... it is a logistics company, not a trading company."

vs.

Valeant Chairman, CEO Michael Pearson, Sanford Bernstein conference,

5/28/2014: "[Valeant] is more like a professional services firm than a sort of traditional pharmaceutical company."

Enron CFO Andy Fastow, meeting with *Fortune*, 2/15/2001: "[Enron's] disclosure is more complete than anyone's."

vs.

Bill Ackman, conference call hosted by Pershing Square, 7/17/2014: "I will also point out that Valeant gives massively more disclosure about its business and did so prior to this transaction than Allergan."

Enron Chairman, Ken Lay, email to employees August 2001: "I have never felt better about the prospects of the Company... our growth has never been more certain."

vs.

Valeant Chairman, CEO Michael Pearson, 2Q 2014 earnings press release, 7/31/2014: "As we look across the entire business, I have never been more confident about the growth trajectory across the entire company."

## This is just too much of an eerie coincidence

### Jeff Skilling Bio

Experience running a business before joining Enron in 1990: **0 years**

Job before joining Enron: **Head of the Global Energy Practice and Head of North American Chemical Practice of McKinsey & Company, 11 year tenure at McKinsey**

vs.

### Michael Pearson Bio

Experience running a business before joining Valeant in 2008: **0 years**

Job before joining Valeant: **Head of the Global Pharmaceutical Practice and Head of mid-Atlantic region of McKinsey & Company, 23 year tenure at McKinsey**

Citron has seen this movie before. In 2008, Arthrocare, a successful medical device company, was doing its dirty deeds through Discocare, an undisclosed captive "independent company". When the relationship was exposed, Arthrocare tried to make it all go away by **announcing it was buying Discocare**. At the time, virtually every investment banking house on the Street had a "buy" or "strong buy" on Arthrocare, and Goldman-Sachs had been engaged to "explore strategic

alternatives". The entire thing began to unravel when [Citron discovered -- and published -- that Arthrocare and Disocare -- ostensibly separate companies, had the same fax number.](#)

The CEO of Arthrocare is now doing 20 years.

While it is impossible for Citron to state for certain at this point, this has the distinct aroma of product being jammed into a channel. It had to have started small, and now it's just too big. "We have an option to purchase Philidor" is simply ... **trying to put the genie back in the bottle.**

## **Conclusion**

*All truths are easy to understand once they are discovered; the point is to discover them.*  
- Galileo Galilei

Citron Research has delivered the proof that something really stinks at Valeant and it is not as simple as a \$600 toenail fungus ointment.

All of a sudden, one thread unravels this whole web of deception. From the moment of the first public mention of Philidor, within 72 hours, Valeant is now holding an option to acquire Philidor ... but there are 5 other Philidor clones, and one of them is filing suit against Valeant for Declarative Judgment? Let's get the explanation -- there always is one -- Mr. Lay is no longer among the living, but there's always Mr. Skilling.

### **Extremely Cautious Investing to All**



### 3. How does Valeant work with specialty pharmacies and what is Valeant's relationship with Philidor?

33



## Specialty Pharmacy (1/2)

- We have viewed our relationship with Philidor and our other specialty pharmacies as proprietary and as one of our competitive advantages
- Similar to many pharmaceutical companies in the U.S., an increasing percentage of our revenue is coming from products dispensed through multiple specialty pharmacies
- We find specialty pharmacies improve patients' access to medicines at an affordable price and help ensure physicians are able to prescribe the medications they believe most appropriate for their patients
- In almost all cases, our inventory with specialty pharmacies and the title for our medicines only transfer to the pharmacy when the actual prescription is filled – this significantly reduces our distribution fees and product returns. Less than 5% of our U.S. channel inventory sits in the specialty pharmacy channel
- Philidor, one of our specialty pharmacy partners, provides prescription services to patients across the country, and provides administrative services for our co-pay cards and is a dispensary that fills prescriptions. We have a contractual relationship with Philidor and late last year we purchased an option to acquire Philidor

34



◀ 35 of 44 ▶ 

## Specialty Pharmacy (2/2)

- Based on a VIE (variable interest entity) assessment in accordance with ASC 810, we consolidate the financials of Philidor. Inventory held at Philidor remains on Valeant's books and is not included in the specialty pharmacy channel inventory
- For many of our dermatology products, many of our specialty pharmacies, including Philidor, dispense Valeant medications before adjudication of the reimbursement may be finalized. Patients get their medicines more quickly and Valeant takes the risk for non-reimbursement
- We understand that Philidor:
  - Provides services under our programs for commercially insured and cash-paying claims only. Any claim that would be reimbursed in whole or in part by government insurance is not eligible for our co-pay subsidy programs
  - Does not restrict prescriptions it fills to any particular manufacturers (including Valeant)
  - Dispenses generic products as specified in patient's prescription or as requested by patient