Valeant's CEO Was Key Force on Pricing

Documents collected during a Senate investigation provide look at how Valeant arrived at sharp price increases

Michael Pearson, chief executive officer of Valeant, lobbied for aggressive price increases on acquired drugs in recent years. Photo: Drew Angerer/Bloomberg News

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In early 2015, when Valeant Pharmaceuticals International Inc.'s top brass met to set prices on a soon-to-be-acquired cardiac drug, some executives suggested slow, staggered price increases. Chief Executive Michael Pearson disagreed.

To reach Valeant's internal profit targets, Mr. Pearson lobbied for a single, sharp increase. Hospitals could still make a profit at the higher price, he argued, which meant patients would still have access to the drug. The team deferred. The day it completed its February 2015 purchase of the drug, called Nitropress, Valeant tripled the cost.

The exchange, recounted in a document reviewed by The Wall Street Journal, shows in greater detail than was previously known how Valeant and its now-outgoing CEO Mr. Pearson pursued quick, aggressive price increases on acquired drugs in recent years—a strategy that sparked widespread backlash and landed Mr. Pearson in front of a Senate investigative panel last week.

A spokeswoman for Valeant, Laurie Little, said, "We heard very clearly the concerns raised by the Senate Special Committee on Aging, and the board is working to map out a new path for the company going forward. That will include consideration both of how best to set drug prices and of the appropriate role of patient assistance programs in helping to ensure that patients can obtain the drugs that doctors prescribe for them."

At last week's Senate committee hearing Mr. Pearson said Valeant was "too aggressive" with drug price increases.

Dozens of documents collected during the Senate investigation provide a deeper look at how Valeant arrived at sharp price hikes on some of the drugs it sells. The documents underscore the challenges Valeant faces now that it has promised to roll back some prices and rely less on acquisitions for which price increases are a major driver. That pivot has investors and analysts concerned about where Valeant's profits will come from and how it will service the $30 billion in debt it carries.

Concerns over the company's reliance on price increases, its accounting and other business practices hammered Valeant stock, which has fallen more than 85% since its high last summer. Valeant has said it is comfortable with its liquidity.

William Ackman, a major Valeant shareholder and recently appointed director, told the Senate committee that he and other new directors have "stabilized" a company that has made "significant mistakes." The company's stock has gone up about 27% over the past month as the company filed a long-overdue annual report, hired a new CEO and reached an agreement with lenders to avoid a technical default.

Under Mr. Pearson, a former McKinsey & Co. consultant, Valeant earned a loyal following on Wall Street for its profitable strategy of buying existing drugs with price-increase potential rather than developing them in-house. "Bet on management, not on science," he often said. While Valeant did have a research program, Mr. Pearson said that most of Valeant's R&D products are reformulations of existing drugs, such as a new delivery method for a glaucoma medicine, according to the Senate documents.

Valeant's pattern of price increases, including on Nitropress, was the subject of a page-one story by the Journal last year. That strategy drew criticism amid broader political scrutiny of pharmaceutical costs. The Senate panel last week—the third in a series of hearings on drug pricing—focused on four Valeant drugs in particular, including Nitropress and Isuprel, which Valeant acquired from Marathon Pharmaceuticals in February 2015.

The other two drugs, Cuprimine and Syprine, are used to treat Wilson's disease, a rare ailment involving a buildup of copper in the body, and were acquired by Valeant in 2013. Months after it raised the price of the cardiac-care drugs in 2015, Valeant sharply raised its price tags on Cuprimine and Syprine.

The price of Cuprimine has risen 5,787% to $26,189 since 2013, with most of the increase occurring in the summer of 2015, according to an analysis prepared by Senate committee staff for the hearing. The cost of Syprine jumped 2,934% to $19,783 during the same period. A doctor testified at last week's Senate hearing that a liver transplant, an alternative treatment for Wilson's disease, is now cheaper than a lifetime of Valeant drugs.

The Senate analysis referred to wholesale acquisition costs that hospitals and other purchasers pay for drugs.

Although the four drugs made up only a fraction of Valeant's $10.3 billion in 2015 sales, they ranked among Valeant's 30 most profitable drugs as measured by net profit, Valeant Chief

Financial Officer Robert Rosiello told the Senate committee last month in a written response to questions.

So valuable were Syprine and Cuprimine that when a senior Valeant official learned that Valeant's customer-service group lacked a way to log inquiries from patients complaining about their rising costs, he wrote in an email that "for these…drugs we need to find a way asap." He inquired about purchasing software to track their complaints. "These patients are too valuable to lose," Laizer Kornwasser a former Valeant executive vice president, wrote, according to the Senate hearing documents.

Mr. Kornwasser didn't immediately respond to requests for comment.

At the 2015 meeting on Nitropress, which was attended by Valeant's then-finance chief, Howard Schiller, Mr. Kornwasser and other top executives, some of the executives recommended gradual price increases to avoid alienating core hospital buyers of the drug, the Senate documents show. Mr. Pearson argued it wasn't an "exorbitant" price for a drug that saved lives and represented only a fraction of hospital costs, according to the documents.

Upon completing its purchase of the two drugs in February, Valeant sharply raised the price of both Isuprel and Nitropress.

A month later, when a Deloitte consultant studied further price-tag spikes on the two drugs, the consultant asked a senior Valeant executive in an email: "Are you ok with the above assumptions? They are leading to high gross margins (more than 99%)."

The Valeant executive replied in an email that the analysis "looks right, and I'm not surprised they are extremely profitable."

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