

# Valeant shares tumble as report questions company finances

October 21 2015, by Tom Murphy

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Valeant Pharmaceuticals stock plunged Wednesday after Citron Research compared the Canadian pharmaceutical company to the collapsed energy giant Enron and accused it of creating a network of phantom pharmacies to fool auditors.

Citron said in a report that it appears that Valeant and the specialty pharmacy Philidor have created the network, and that Philidor appears to own R&O Pharmacy, a company Valeant has accused of improperly withholding payments.

Valeant Chairman and CEO Michael Pearson had told analysts on Monday that his company works with Philidor and, late last year, Valeant had purchased an option to buy that company.

Citron said in its report that it appears that Valeant and Philidor have created an entire network of clones to Philidor to avoid auditor scrutiny. Citron said that it "believes the whole thing is a fraud to create invoices to deceive the auditors and book revenue."

Citron is a short seller's research firm that publishes reports online about companies. Short sellers earn money when a stock declines. Citron says on its website that it does not guarantee that it is providing all available information, and its principals "most always" hold a position in securities profiled on its site.

The drug company denied the allegations.

"Citron's false and misleading statements about Valeant appear to be an attempt to manipulate the market in an effort to drive down Valeant's stock price," spokeswoman Laurie Little said in an emailed statement. "We are confident in our full compliance with all applicable accounting rules, regulations and laws."

Valeant also posted an explanation on its website of how it deals with sales and inventory tied to Philidor Rx Services. It said Philidor's pharmacy network includes R&O, and Valeant only records sales involving that network when a product is dispensed to a patient.

Those sales are treated as intercompany and are eliminated from the consolidated revenue Valeant reports.

The Citron report comes as Valeant faces increasing scrutiny over the prices it charges for drugs. Valeant's business model has historically involved acquiring drugs that it considers undervalued, or mispriced, and then raising the price to what it determines is a proper value.

The Laval, Quebec, company drew Congress' interest following its purchase of the life-saving heart drugs Nitropress and Isuprel. The company jacked up prices on both drugs shortly after buying them from Marathon Pharmaceuticals in February, tripling one and raising the other sixfold.

Valeant revealed last week that federal prosecutors have subpoenaed documents tied to its drug pricing and other policies.

U.S.-traded shares of Valeant Pharmaceuticals International Inc. declined 19 percent, or \$28.13, to \$118.61 Wednesday, while broader indexes were nearly flat. The stock had tumbled about 40 percent Wednesday before recovering some of its value after Valeant responded to the Citron report.

The stock price had topped \$240 as recently as last month and hit an all-time high of \$263.81 in August. By Tuesday's close, it was down to \$146.74, which still represented a gain of 2.5 percent so far this year.

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