# 45x

Pershing Square Capital Management, L.P.

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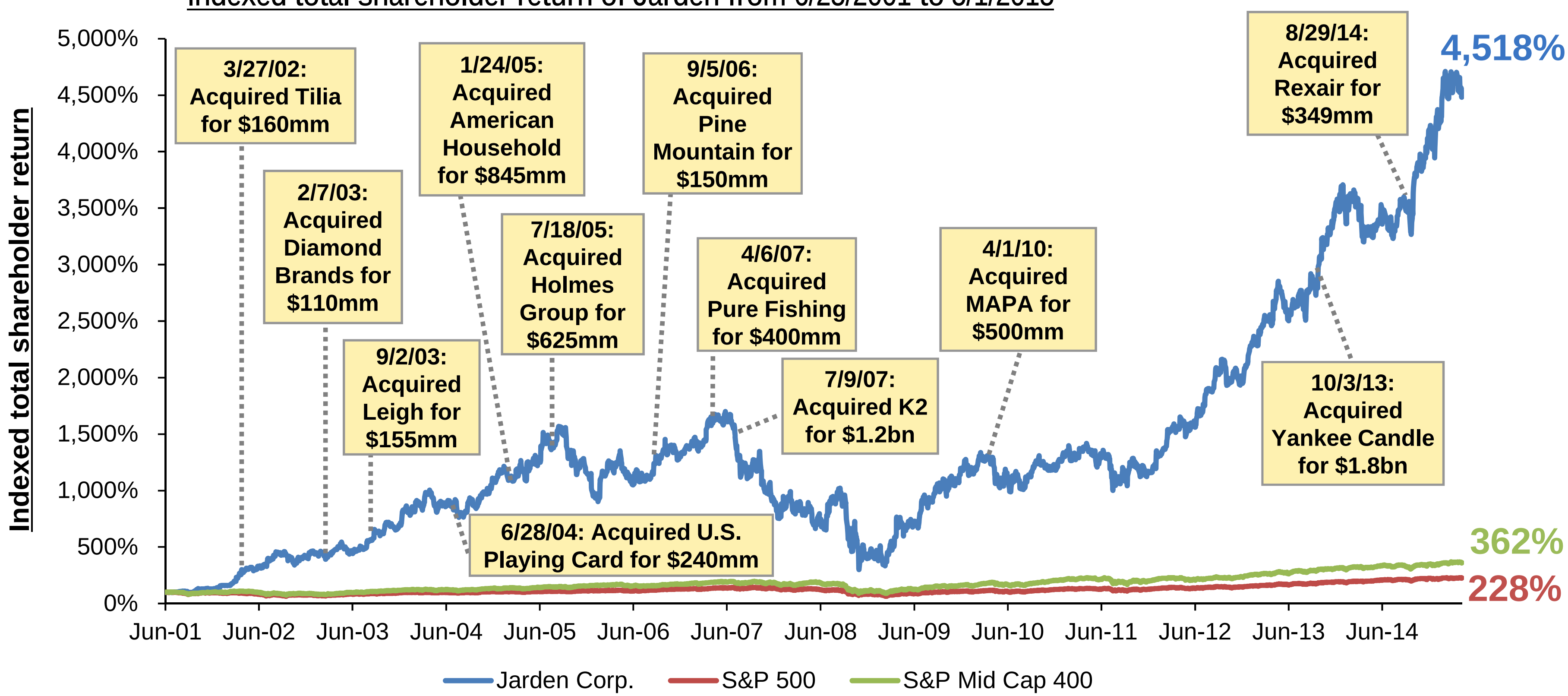
# Jarden Corporation: ~45x Return in 14 Years

**Since Martin Franklin joined Jarden in 2001, the company has achieved success as a well-managed consolidator of consumer products assets, generating a ~45x total shareholder return to-date**

Indexed total shareholder return of Jarden from 6/25/2001 to 5/1/2015




Note: Total shareholder returns are calculated per Bloomberg from June 25, 2001 to May 1, 2015 with all starting values indexed to 100%.

# Investors Have Consistently Underestimated Jarden's Earnings Potential

**In June 2001, investors could have purchased Jarden's shares at ~0.4x 2016 Consensus EPS(1)**

**Jarden's Historical Share Price as a Multiple of 2016E Earnings (6/25/2001 to 5/1/2015)**


Source: Bloomberg. Stock price adjusted to assume reinvestment of dividends.
(1) Based on Bloomberg Consensus 2016 EPS of $3.149 as of May 1, 2015.

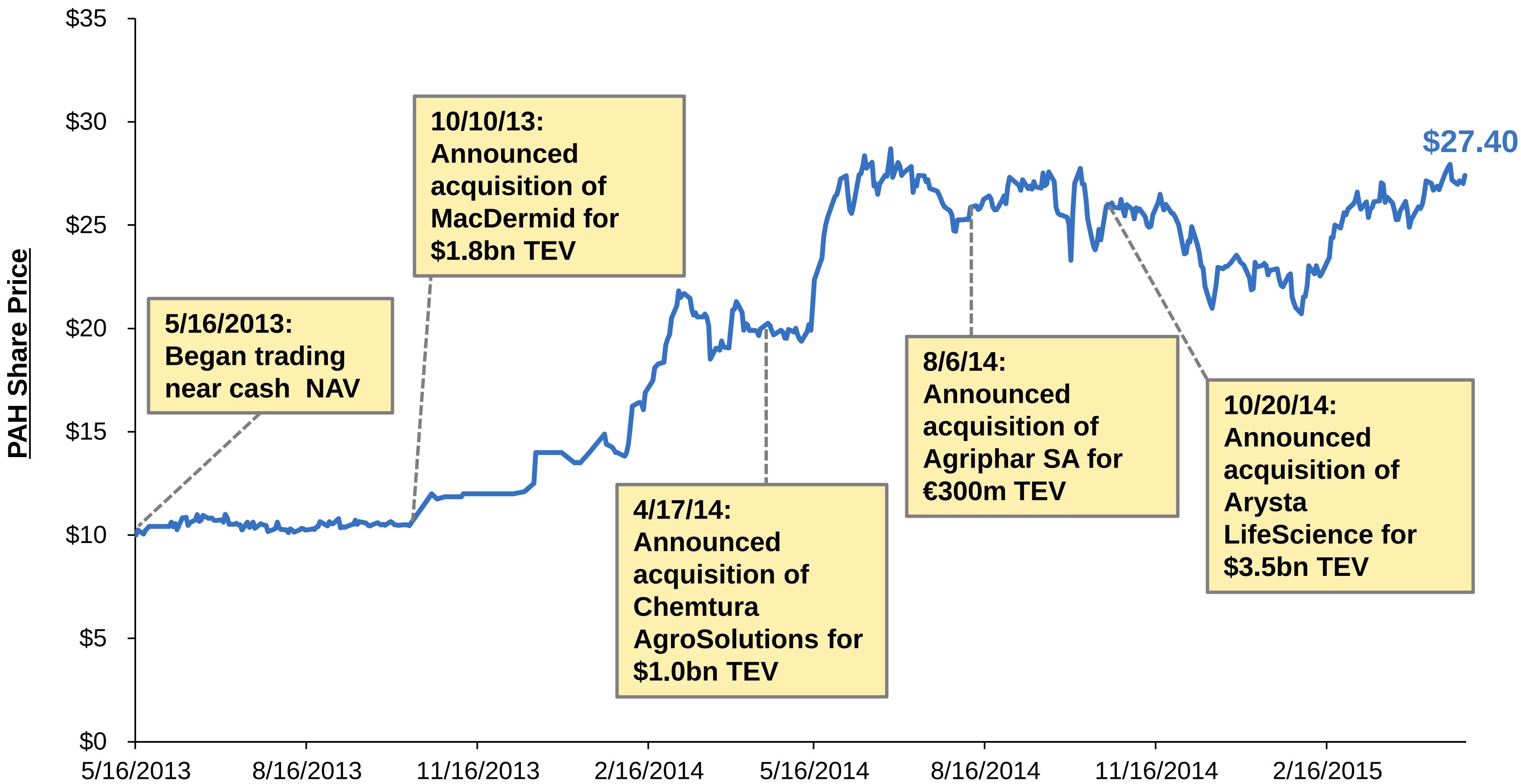
# Platform Specialty Products (NYSE: PAH)

- **Martin Franklin, Chairman of Jarden, and private investor Nicolas Berggruen co-founded PAH in early 2013**
- **In May 2013, PAH raised approximately $900mm[(1)] in a public offering at $10 per share**
- **In October 2013, PAH announced the acquisition of MacDermid Inc., a specialty chemical company, for $1.8bn**
- **PAH has subsequently acquired three businesses in the agricultural chemicals industry for approximately $5 billion**
- **Today, PAH trades at $27.40 per share, a ~175% increase from its public offering price just two years ago**

(1) http://ir.platformspecialtyproducts.com/faq.cfm

# Platform Specialty: ~175% Return in Two Years

## PAH Share Price from 5/16/2013 to 5/1/2015




Source: Bloomberg.

# Nomad Holdings Limited (NOMHF) ("Nomad")

- **Martin Franklin and Noam Gottesman, co-founder of GLG Partners, co-founded Nomad in early 2014**

- **In April 2014, Nomad raised $500mm[(1)] in a public offering and began trading at a valuation approximating its cash per share**

- **In April 2015, Nomad announced the acquisition of Iglo Foods Holdings, the largest frozen foods business in Europe, for approximately €2.6 billion from private equity owner Permira**

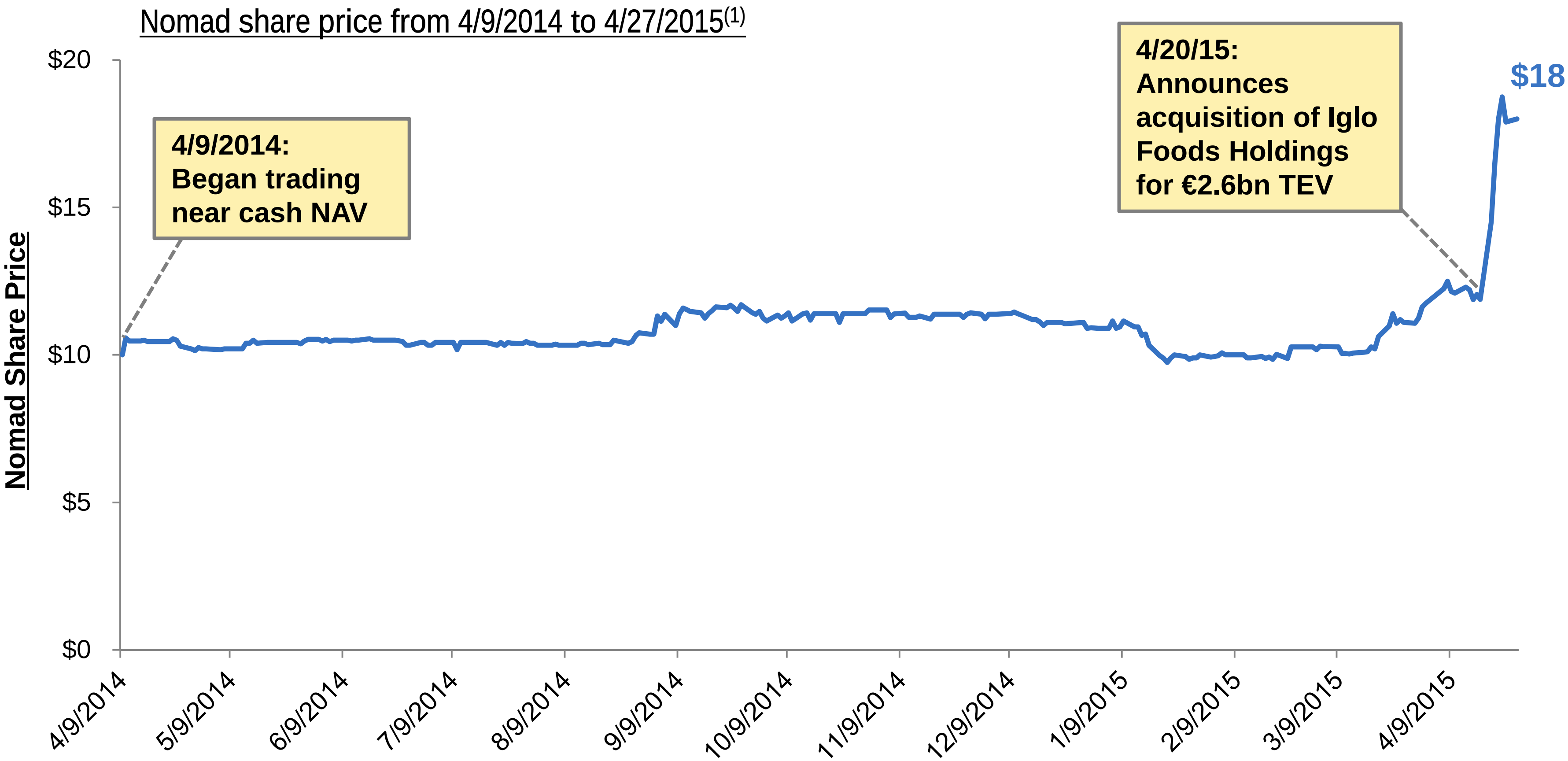
- **Nomad is financing its acquisition of Iglo with cash on hand from its IPO, debt financing, and a $750mm private placement of equity**

**Nomad has called Iglo its "anchor investment"[(2)], and intends to use this asset as a base for future food industry acquisitions**

(1) Includes $485mm in ordinary shares (with matching warrants) and $15mm in founder preferred shares.
(2) Source: http://www.reuters.com/article/2015/04/20/us-iglo-m-a-nomad-foods-idUSKBN0NB1C520150420.

# Nomad Holdings: ~80% Return Since IPO

**Nomad shares have increased by ~80% in just over a year, driven by the Iglo acquisition announcement**




Source: Bloomberg

Note: Presented as Nomad Holdings (LSE) through 4/20/15 and NOMHF US, a grey market tracking stock, from 4/20/15 through 5/1/15 following the LSE de-listing.

(1) Trading in Nomad shares was halted subsequent to 4/27/2015.

# Nomad Holdings: Why Has the Stock Gone Up So Much?

**Nomad's share price has increased dramatically since the Iglo Foods acquisition was announced**

**What are the possible explanations for this 80% price increase?**

- **Did Nomad purchase Iglo for materially less than its fair value?**
  - × Nomad paid ~8.5x 2014 adjusted EBITDA, a reasonable multiple given Iglo Foods' business quality and modest growth potential
  - × The seller was a private equity firm with no urgency to sell
- **Are there substantial synergies with the acquirer's assets?**
  - × Prior to the acquisition, Nomad's only asset was cash

# What is going on here?

# Platform Value

**Businesses managed by superior operators that execute value-enhancing acquisitions and shareholder-focused capital allocation have substantial Platform Value**

**Additional Examples of Well-Known, Successful Platforms:**

DANAHER

LIBERTY

Liberty Media

AB InBev

TRANSDIGM GROUP INC.

# Martin Franklin's Platform Strategy

**Franklin's intense focus on value-creating capital allocation has driven significant share price appreciation across several companies**

- **Value-creating acquisition and capital allocation strategy**
  - Maintains high standards for quality and valuation of acquired businesses
  - Focus on shareholder value creation not reported GAAP earnings
  - Intelligent use of debt and equity to finance acquisitions
  - Capital allocation and acquisitions are a core competency and a significant focus of senior management and the board

**A decentralized organizational structure allows Franklin's companies to move quickly to seize opportunities and to keep costs down**

# Not All Acquisitive Businesses Create Value

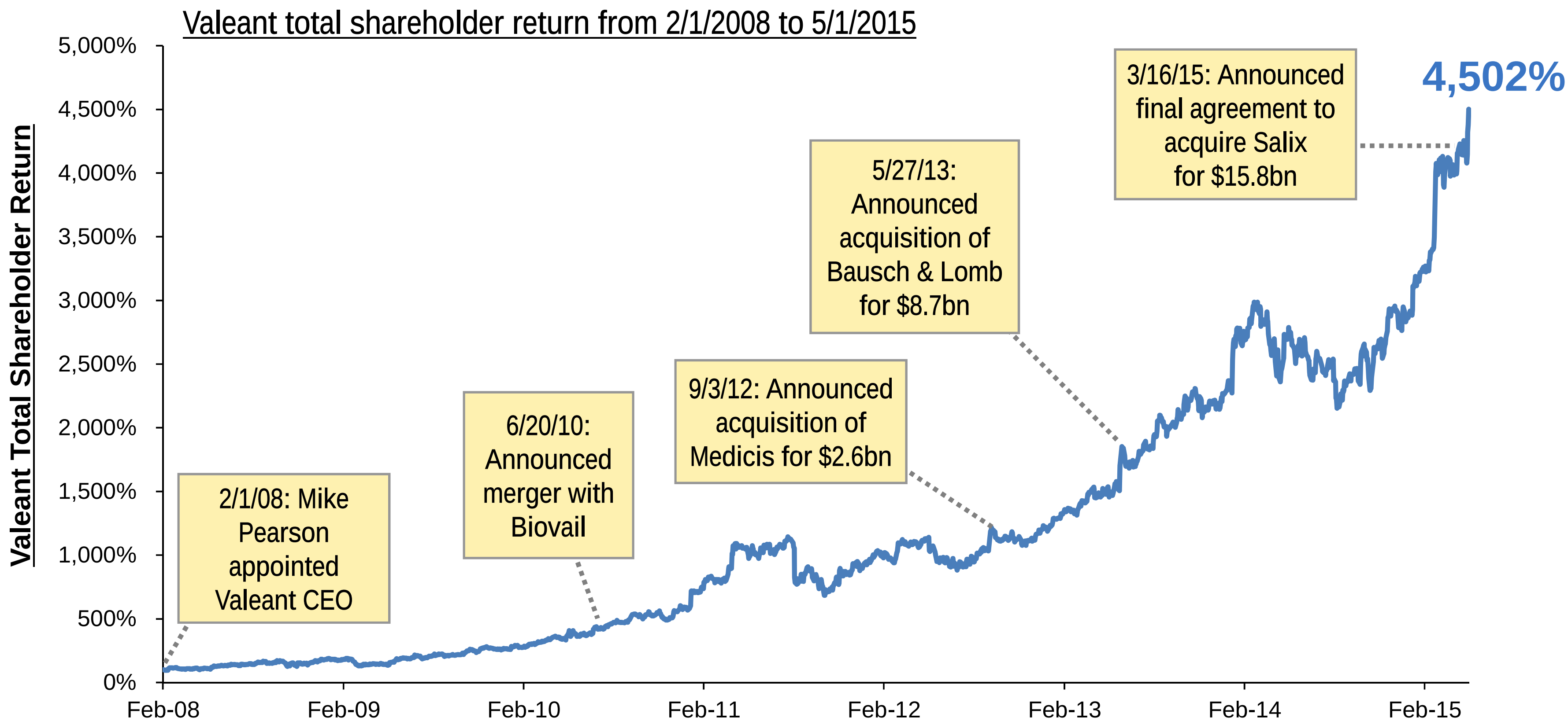
**While Martin Franklin and other intelligent capital allocators have created tremendous value through platforms, there are many examples of acquisition-intensive companies that have destroyed shareholder value**

- **These failures can be distinguished from successful platform models in the following ways**
  - Lacked a competitive advantage in cost structure or strategy
  - Overpaid for acquisitions to generate growth
  - Relied on overvalued equity as an acquisition currency
  - Failed to integrate and achieve cost synergies
  - Focused on growing reported GAAP earnings rather than economic earnings per share

# Valeant: An Under-Appreciated Platform

# Valeant's Platform Strategy Has Created Shareholder Value Over Many Years

**An investment in Valeant shares on the day Mike Pearson became CEO has appreciated to ~45x its initial value in seven years including dividend reinvestment**




Note: Chart shows the total shareholder return with the initial share price indexed to 100% for an investment in Valeant Pharmaceuticals International, the entity that merged into Biovail Corporation on September 28, 2010. Subsequent to this transaction, Biovail Corporation changed its name to Valeant Pharmaceuticals International, Inc. Chart assumes that the special dividend of $16.77 paid to legacy Valeant shareholders at closing of the merger and the special dividend of $1.00 paid to new Valeant shareholders on December 22, 2010 were both immediately reinvested in new Valeant (fka Biovail) common stock.

# Valeant's Acquisition Strategy

**Management expects to invest the majority of the company's free cash flow in value-creating acquisitions**

- **Large acquisitions of traditional pharma / device companies with bloated cost structures and unproductive R&D spending**
- **Small, bolt-on acquisitions of products easily integrated into Valeant's efficient, international distribution infrastructure**
  - In-licenses from one-product companies
  - Acquisitions of sub-scale companies without adequate distribution
  - Declining products neglected by other companies that can return to growth with promotion
- **Effective acquisition and integration process**
  - CEO Mike Pearson is personally involved in evaluation, negotiation and execution of transactions

# Valeant's Acquisition Track Record & Financial Framework

**Valeant has earned a >20% unleveraged return on the $20bn+ it has invested in acquisitions since 2008 (excluding tax benefits)(1)**

- **Conservative underwriting of attractive returns**
  - Target 20%+ unlevered IRR, before tax synergies (est. 30%+ after-tax)
  - Target < 6-year payback
  - Pipeline value of acquisition target assigned zero value
- **Implementation of Valeant's decentralized management model at acquired companies**
  - Valeant management has accelerated revenue growth at all seven of Valeant's "platform" acquisitions(2)
- **Rapid integration with synergies at or exceeding budget**
  - Have met or exceeded synergy budget on all announced acquisitions
  - Typically, ~80% of synergies achieved within first year

Source: Management interviews
(1) Excludes 2015 transactions.
(2) Management Presentation: "The Valeant Approach – An Enduring Engine For Growth", 5/28/14

# How Can One Evaluate Valeant's Platform Value?

**Valeant's Platform Value is a function of several factors:**

| Competitive advantages of the Platform Company | Valeant |
|---|---|
| Operational efficiencies relative to competitors | |
| Integration track record | |
| Revenue synergy potential | |
| Access to and cost of capital | |
| Transaction execution capability | |
| **Target Opportunity** | |
| Large relative size of the market opportunity | |
| Competitiveness of acquisition market | |

High Platform Value:

Low Platform Value:

# Valeant: Bausch & Lomb ("B&L") Transaction

## Transaction Background

- **In May 2013, Valeant agreed to acquire global eye health company Bausch & Lomb for $8.7 billion**
- **Valeant acquired B&L from Warburg Pincus**
- **VRX paid 13.5x 2012 Adj. EBITDA of $643 million[(1)]**

(1) Source: Bausch & Lomb S1.

# Valeant: B&L Transaction

**Valeant management has increased the value of B&L from $8.7bn to more than $21bn**

## B&L Transaction Value Creation ($mm):

| | | Low | Mid | High |
|---|---|---|---|---|
| | **2014 Pro-Forma B&L Free Cash Flow** | **$ 1,425** | **$ 1,425** | **$ 1,425** |
| | Multiple | 15.0x | 16.0x | 17.0x |
| A | **Current B&L Value** | **$ 21,375** | **$ 22,800** | **$ 24,225** |
| B | **Consideration + Restructuring Expense** | **$ 9,300** | **$ 9,300** | **$ 9,300** |
| A-B | **Value Creation** | **$ 12,075** | **$ 13,500** | **$ 14,925** |
| (A-B)/B | % Return | 130% | 145% | 160% |

Analysis gives no credit to: B&L pipeline, Bolt-on acquisition opportunities, Leverage

## Sources of Value Creation

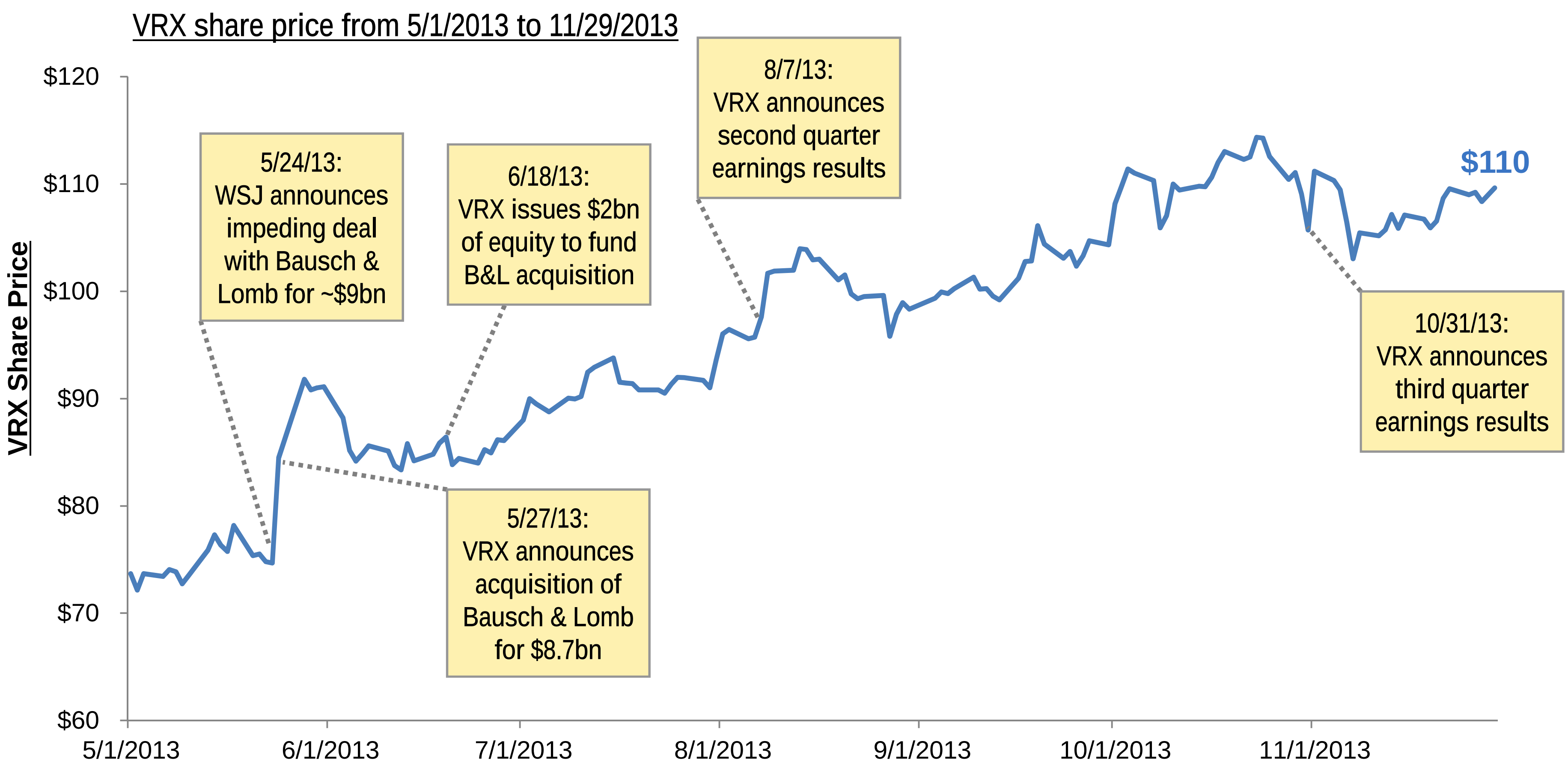
- Under Valeant ownership: B&L's organic growth increased from 5% to 11%(1)
- Under Valeant ownership: B&L's EBITDA margin increased from 21% to ~50%(2)

**B&L Free Cash Flow Calculation:**
Applied estimated 2012 Pro-Forma EBITDA margin of 50% ($900mm of synergies) to 2014 revenue. Other assumptions include: $120mm of B&L Capex and a long-term 10% cash tax rate.

(1) Represents 5% organic growth in 2012 (Pro-Forma ISTA acquisition, as if acquisition had occurred at the beginning of 2011), the last full year prior to the acquisition by Valeant, and 11% growth in 2014, the first full year of Valeant ownership.
(2) 50% pro forma margin allocating all synergies to B&L.

# Valeant Stock Price – Bausch & Lomb

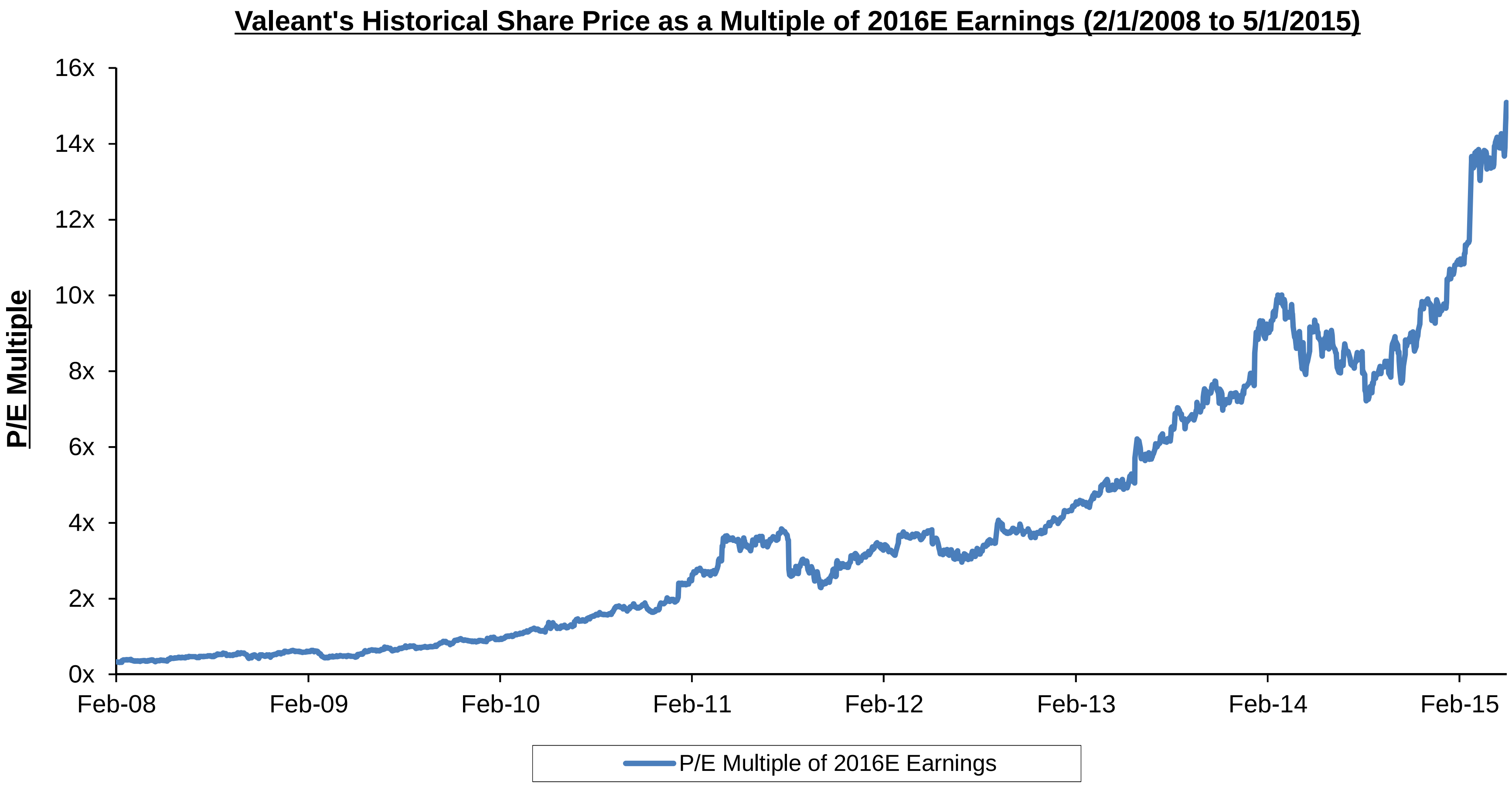
**Despite issuing equity, VRX shares appreciated 47% in the six months following press reports announcing Valeant's agreement to acquire B&L**




Source: Bloomberg. Share price appreciation measured from the closing price 1 day prior to the WSJ news article (5/23/2013) to the end of November 2013.

# Investors Have Consistently Underestimated the Earnings Potential of the Valeant Platform

**In 2008, investors could have purchased Valeant's shares at ~0.3x 2016 Consensus EPS(1)**




Source: Bloomberg. Stock price adjusted to assume reinvestment of dividends.
(1) Based on Bloomberg Consensus 2016 EPS of $14.779 as of May 1, 2015.

# Why the Stock Market Undervalues Platform Companies

**The traditional multiple-of-earnings valuation methodology does not incorporate Platform Value**

- **The traditional multiple-of-earnings valuation approach:**
  - Measures the earnings of the company's existing asset base
  - Applies a multiple to earnings that reflects growth potential and risk
  - Ignores the value a company can generate from value-enhancing acquisitions

**Instead, investors should consider both the earnings potential of the company's current asset base, <u>as well as the potential to generate additional earnings through future, value-enhancing investments</u>**

# Equity Research Analysts are Starting to Give Credit to Valeant's Platform Value

"*Valuation: Our price target is based on a DCF that includes a bolt-on sensitivity, with the increase due to a higher DCF with SLXP more than offsetting a slightly more conservative bolt-on analysis [of $50 dollars in present value per share].*"

- Goldman Sachs (Apr-12-2015)

"*While management appears focused on tuck-in deals in the near term, we would not be surprised to see VRX evaluate larger M&A over time. We calculate that continued deployment of cash flow and fully leveraging the company's balance sheet could drive 2017 EPS near $20.*"

- JPMorgan (Apr-2-2015)

"*Valeant's diversified, global platform gives it the unique flexibility to consider a number of small and large transactions in branded pharma, generics, branded generics, OTC, and aesthetics all around the world.*"

- Morgan Stanley (Feb-27-2014)

# Valeant Valuation Model

**Management's \$7.5bn+ 2016 EBITDA guidance implies ~\$16+ of 2016 Adj. EPS[1]**

**Valued at 16x forward earnings, this implies \$250+ of value by year end 2015, a ~10%+ return from today's stock price**

**However, this analysis ignores one of Valeant's most valuable assets, its Platform Value**

(1): Assumes \$300mm of D&A and stock based compensation, \$1.4bn of interest expense, 5% tax rate, 350mm shares

# Platform Valuation Model Assumptions – Acquisitions

| | Assumption | Rationale |
|---|---|---|
| **Acquisition Multiple** | 4x forward sales[1] | Management's long-term goal is to acquire assets for 2x to 3x sales |
| **Pro Forma Financials of Acquired Assets** | ~52.5% EBITA margin | 2016 corporate EBITA margin >55% |
| | 5% organic growth | Valeant reported 13% organic growth in 2014[2] |
| | 10% long-term tax rate | Current Valeant corporate tax rate ~5% |

## Acquisition Value Creation

- **Implied unlevered FCF multiple**
  - ~8.5x FCF
- **Implied value creation**
  - Valuing pro-forma FCF at 16x, implies a ~90% unlevered return

(1): Restructuring expenses capitalized in the acquisition price

(2): Same store organic growth, including impact of generics

# 2020 Earnings Scenarios

**We believe Valeant can earn ~$28 to ~$39 per share in 2020, if management is able to continue its historically successful capital allocation strategy**

| | Annual M&A Cap | | | |
|---|---|---|---|---|
| | **$0bn** | **$5bn** | **$10bn** | **$20bn** |
| Base Business Revenue | $ 15,000 | $ 15,000 | $ 15,000 | $15,000 |
| Revenue of Acquired Products | - | 5,400 | 10,800 | 19,000 |
| **Total 2020 Revenue ($mm)** | **$ 15,000** | **$ 20,400** | **$ 25,800** | **$34,000** |
| | | | | |
| 2020 EBITDA ($mm) | 9,000 | 12,000 | 14,900 | 19,400 |
| % Margin | 60% | 59% | 58% | 57% |
| | | | | |
| Debt (January 2020, $mm) | 34,200 | 45,400 | 56,600 | 73,800 |
| x Leverage (Debt/2019 Pro-Forma EBITDA) | 4.0x | 4.0x | 4.0x | 4.0x |
| | | | | |
| **2020 Earnings Per Share** | **$ 23.00** | **$ 27.90** | **$ 32.40** | **$ 38.60** |
| % Growth from 2016 earnings base | 46% | 78% | 106% | 146% |
| | | | | |
| **Cumulative Investment ($bn):** | | | | |
| Investment in Acquisitions | $ - | $ 20.0 | $ 40.0 | $ 71.1 |
| Investment in Share Buybacks | 26.2 | 20.1 | 14.0 | 3.2 |
| % of shares repurchased | 23% | 16% | 10% | 2% |

**Leverage pegged at 4x**

**Excess FCF used to buyback stock**

# Valuation Multiple: Summary

**If Valeant's durable portfolio were valued within the range of multiples of businesses that we believe to be comparable, and its patent cliff portfolio were valued using a DCF analysis, then we estimate that Valeant's forward earnings multiple would be as follows:**

| | 2020 | | |
|---|---|---|---|
| Portfolio | % Earnings Contribution | Earnings Multiple | |
| Durable | 70% | 20.0x | ← **Reflects Comparables Analysis** |
| Cliff | 30% | 8.0x | ← **Reflects DCF Analysis** |
| **Total** | **100%** | **16.4x** | |

Assumption: We assume the durable and patent cliff portfolios have earnings contributions equal to their sales contributions

# Valuation Summary

**Assuming management continues to make attractive acquisitions, Valeant trades at a large discount to fair value**

| | Annual M&A Cap | | |
|---|---|---|---|
| | **$5bn** | **$10bn** | **$20bn** |
| **2020 EPS** | $ 27.90 | $ 32.40 | $ 38.60 |
| **NTM P/E Multiple** | 16.0x | 16.0x | 16.0x |
| **2020 Value (January 2020)** | **$ 446** | **$ 518** | **$ 618** |
| % Increase over current share price | 100% | 132% | 177% |
| % IRR | 16% | 20% | 24% |
| | | | |
| **PV (Value Today - 10% Discount Rate)** | **$ 286** | **$ 332** | **$ 396** |
| % Increase over current share price | 28% | 49% | 78% |

**Values acquired assets and base business at 16x 2020 earnings**

**Current Valeant share price = $223**

**This analysis excludes potential upside from a large, transformational acquisition and any contribution from VRX's drug development pipeline(1)**

(1) Legacy Valeant pipeline excluding Salix pipeline.

# Valeant's Late-Stage Pipeline

**Valued at 8x its estimated peak earnings contribution, Valeant's late-stage pipeline, excluding Salix, may be worth as much as ~$40 per share**

| Product | Description | 2015 Development Milestones | Expected Launch Year | Management Peak Sales Est. Low | Management Peak Sales Est. High |
|---|---|---|---|---|---|
| Luminesse | Eye Whitening, OTC | Filed NDA in March 2015 | 2016 | 300 | 400 |
| Vesneo | Novel Glaucoma Therapy | File NDA, 1H 2015 | 2016 | 400 | 1,000 |
| Lotemax Gel Next Gen. | Ocular Inflamation Topical | File NDA, 2016 | 2016 | 75 | 100 |
| Emerade | Anaphylaxis Device | | 2016/2017 | 100 | 500 |
| IDP-118 | Psoriasis Topical | Phase III initiated | 2017/2018 | 200 | 300 |
| **Total Peak Annual Sales Potential** | | | | **$ 1,075** | **$ 2,300** |
| **Value Per Share** | | | | **$ 18** | **$ 38** |
| % of Current Share Price | | | | 8% | 17% |

**Valeant management intends to continue the majority of Salix's R&D programs. Salix management had estimated ~$5bn of potential peak sales from the company's Phase II and Phase III programs, not including Xifaxin for IBS-D**

Valuation assumes contribution margin of 80%, 10% tax rate and no time or risk discount factor

Valeant program peak sales estimates from management's 4/22/14 presentation except Lotemax Gel Next Gen., which is a Pershing Square forecast

Salix program peak sales from 7/9/2014 investor day

# Summary

- **Platform companies can be incredibly valuable but are often underappreciated**
  - A traditional multiple-of-earnings approach does not capture platform value
  - Investors should consider the potential for additional value creation through future acquisitions in valuing platform companies
- **The Valeant Platform**
  - Superior operating and capital allocation strategy in a large, historically inefficient industry
- **Valuation**
  - The majority of Valeant’s business is comprised of high quality, durable assets that merit a high earnings multiple
  - At $223 per share, Valeant trades at only ~14x management’s implied ~$16 2016 earnings per share guidance

**If VRX is able to continue its historic success allocating capital, Valeant’s stock today is worth $330+ per share excluding substantial pipeline upside or the potential for a large, transformative acquisition**

# Appendix

# “Patent Cliff” vs. “Durable” Drugs/Medical Devices

- **Patent Cliff Products**
  - A patent provides a legal monopoly to the inventor of a drug or medical device for a limited period of time
  - During the period of patent exclusivity (usually 20 years from the filing of the patent application), superior profit margins are possible (and necessary to recoup the cost of developing the drug/device)
  - On the day the patent expires (the “patent cliff”), low-cost, generic products can enter the market. If generics enter, sales of more expensive, previously patented products usually decline substantially
- **Durable Products**
  - Do not depend on the legal monopoly afforded by patents for their market position
  - Similar to consumer packaged goods

# Sum of the Parts (SOTP) Valuation: Two Types of Cash Flow

## Durable Products

**Products:**

- **Durable Rx**
- **Branded Generics**
- **OTC**
- **Durable Devices**

**Valuation Methodology**

- **Multiple of after-tax profits**

## Patent Cliff Products

**Products:**

- **Patent Cliff Rx**

**Valuation Methodology**

- **Discounted cash flow analysis**

# Durable Portfolio:
# Few Healthcare Trading Comparables

**Valeant's durable business has few peers among publicly traded pharmaceutical companies**

- **Big Pharma**
  - Few durable assets
  - High exposure to competitive, low-growth categories
- **Biotech**
  - High product concentration
  - Large R&D investment
- **Specialty Pharmaceuticals**
  - High product concentration
  - Few durable assets
- **Generic Pharmaceuticals**
  - Focused on commodity categories
  - Low secular growth

# Durable Portfolio:
# Healthcare Trading Comparables

**Only a handful of public healthcare companies have durability comparable to Valeant's durable product portfolio**

- **Perrigo Co.**
  - ~80%[1] of EBITA is durable – assumes large biologic drug is a patent cliff asset
  - Major businesses: Private label and branded OTC; Rx generics; Rx biologic royalty
  - Lower gross margin than Valeant: 2016e Gross Margin = 48%[2] vs. 79%[2]
  - Undisturbed trading multiple: 21x Forward EPS[3]

- **Zoetis Inc.**
  - >80%[4] durable – ~80% of revenues are not covered by exclusive intellectual property; animal health pharmaceuticals face lower generic substitution risk than human pharma
  - Major business: Companion and livestock animal health pharmaceuticals
  - Undisturbed trading multiple: 23x Forward EPS[3]

[1] RBC analyst report 3/23/15

[2] Capital IQ consensus

[3] Based on the closing share prices and capital IQ consensus NTM EPS estimates as of 10/31/14 for Zoetis (the day before Pershing Square's rapid accumulation program began) and 4/7/15 for Perrigo (the day before Mylan publicized its Perrigo bid)

[4] Zoetis 2014 Investor Day 11/18/2014

# Durable Portfolio:
# Healthcare Transaction Comparables

**Several large portfolios of durable OTC products have been sold in the last decade**

| Announced Date | Asset | Buyer | Price ($bn) | xForward Net Income: Reported | xForward Net Income: Adj. for 25% Premium (1) |
|---|---|---|---|---|---|
| 10/7/2005 | Boots Healthcare Int'l | Reckitt Benckiser | $3.4 | 26x | 20x |
| 6/26/2006 | Pfizer Consumer Health | Johnson & Johnson | 16.6 | 36x | 29x |
| 12/10/2007 | Adams Respiratory | Reckitt Benckiser | 2.3 | 29x | 23x |
| 7/21/2010 | SSL International | Reckitt Benckiser | 4.2 | 25x | 20x |
| 11/15/2012 | Schiff Nutrition | Reckitt Benckiser | 1.5 | 26x | 21x |
| 5/6/2014 | Merck Consumer Care | Bayer AG | 14.2 | 34x | 27x |
| 11/6/2014 | Omega Pharma NV | Perrigo Co PLC | 4.5 | 19x | 16x |
| | | | **Average** | **28x** | **22x** |

Source: CapIQ, Bloomberg and Wall Street research. Net income multiples represent multiples of tax-affected EBIT excluding synergies.
(1): Multiples adjusted downward for a hypothetical 25% control premium.

# Durable Portfolio:
# Trading Comparables Outside of Healthcare

**We believe trading comparables outside of traditional healthcare can be useful for valuing Valeant's durable business**

| | |
|---|---|
| **Personal Care** | COLGATE-PALMOLIVE, P&G, Reckitt Benckiser |
| **Global Beauty** | Beiersdorf, ESTĒE LAUDER, L'ORÉAL |

# Durable Portfolio: Trading Comparables Outside of Healthcare

**We believe trading comparables outside of traditional healthcare can be useful for valuing Valeant's durable business**

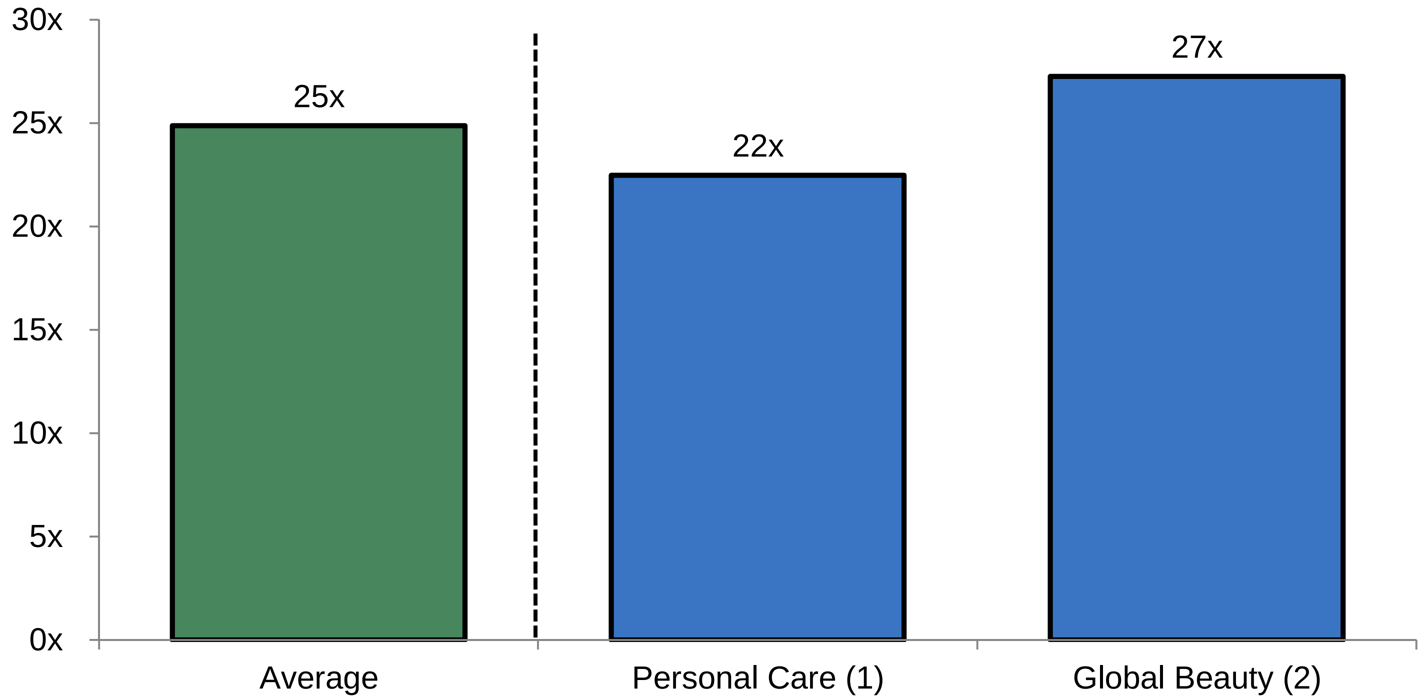
| Industry | Gross Margins | Long Term Organic Growth |
| --- | --- | --- |
| **Valeant (Durable)** | **>70%** | **5% - 7%** |
| **Personal Care[1]** | **50% - 60%** | **4% - 6%** |
| **Global Beauty[2]** | **60% - 80%** | **5% - 7%** |

(1): Personal Care: Procter & Gamble, Reckitt Benckiser and Colgate Palmolive.
(2): Global Beauty: L'Oreal SA, The Estee Lauder Companies and Beiersdorf AG.

# Durable Portfolio: Trading Comparables Outside of Healthcare

**Comparable non-healthcare companies are valued at an average of 25x 2015 earnings**

## 2015 P/E Multiple

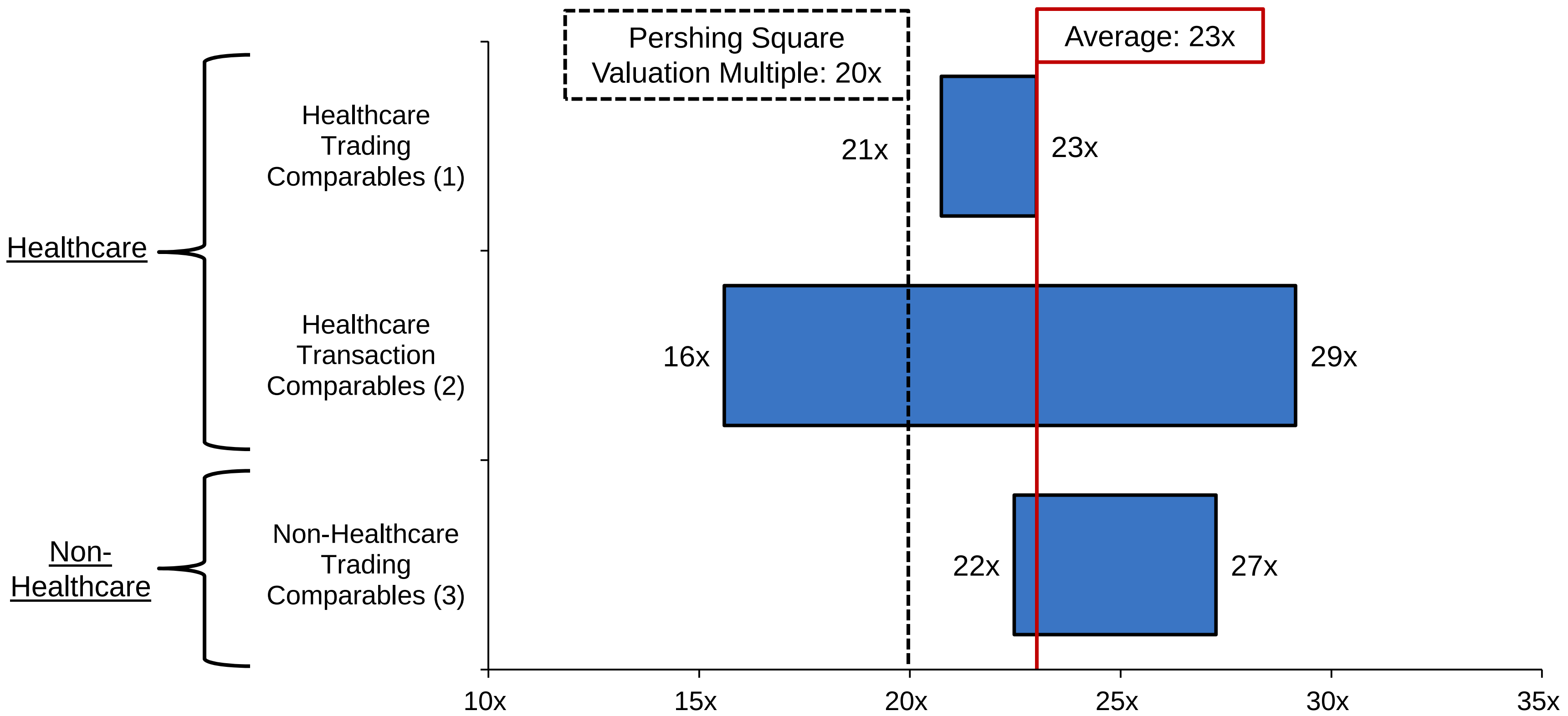



Source: CapIQ median estimates as of 5/1/2015.
(1) Personal Care: Procter & Gamble, Reckitt Benckiser and Colgate Palmolive.
(2) Global Beauty: L'Oreal SA, The Estee Lauder Companies and Beiersdorf AG

# Valuation Multiple: Durable Portfolio

**We conservatively value Valeant's durable portfolio at 20x forward earnings**

## Valuation Range – Forward P/E Multiple




(1) Based on the undisturbed forward earnings multiples for Perrigo and Zoetis.
(2) Presented based on the low and high ends of the range of the durable OTC deal comparable. Net income multiples represent multiples of tax-affected EBIT excluding synergies. Multiples presented are adjusted downward for a hypothetical 25% control premium.
(3) Presented based on the average multiple of the public comparable companies: Personal Care at the low end (22x) and Global Beauty at the high end (27x).

# Valuation of Patent Cliff Portfolio (Base Business)

**The below assumptions imply a patent cliff portfolio value in 2020 equal to eight times forward earnings**

- **10 years of remaining cash flow, from 2020**
  - Reflects average patent life of cliff portfolio in 2020
  - Assumes Xifaxin (550mg tablet) loses exclusivity in 2029
- **5% annual cash flow growth until cliff**
- **10% discount rate**
- **Ineffective Life-Cycle Management**
  - Assumes management is unable to extend the economics of the franchise beyond the expiration of the original patent
- **Revenues after patent cliff are zero**
  - Assumes that the branded product's market share drops to zero immediately after final patent expires
  - Assumes that Valeant will not enter the generic market
- **Costs are variable**
  - Assumes Valeant is able to reduce SG&A and R&D costs proportionate to the revenue lost from patent cliffs

# Durable vs. Cliff Product Sales: Base Business in 2020

## Valeant Total Sales (Estimated)

| | 2020e $mm Sales | 2020 % of Sales |
|---|---|---|
| Valeant (ex-Salix) | | |
| Durable | 10,600 | 90% |
| Cliff | 1,150 | 10% |
| **Sub Total** | **11,750** | |
| **Salix** | **3,250** | |
| **Total** | **15,000** | |

## Implied Cliff Product Sales

| | |
|---|---|
| Cliff (ex-Salix) | 1,150 |
| Salix | 3,250 |
| **Cliff Sales** | **4,400** |
| % of Total Sales | ~30% |

## Valeant 2020 Cliff Sales Bridge (ex-Salix)

| | | |
|---|---|---|
| 2015 revenue from patented US Rx (cliff products) | ~$1.4bn | <- Excludes Jublia, Luzu, Onexton; Includes Marathon |
| Less: Sales lost to patent cliffs 2015 - 2019 | 1.2bn | <- Measured at 2015 sales level (per guidance), Includes Marathon |
| **Sub total** | **0.3bn** | <- Measured at 2015 sales level |
| Plus: Growth of cliff products from 2015 to 2020 | 0.1bn | <- 5% annualized growth |
| **Sub total** | **0.3bn** | |
| Plus: 2020 sales of launch products | 0.8bn | <- Jublia, Luzu, Onexton |
| **Total** | **~$1.2bn** | |

Source: Pershing Square analysis based on public filings and statements by Valeant, including January 13, 2015 presentation. Please see disclaimer on page 2.

# Platform Valuation Model Assumptions – Base Business Forecast (No Acquisitions)

## Revenue: ~$11.5bn[1] (2015) → ~$15bn (2020)

- **Valeant (ex-Salix)**
  - 2015 and 2016: sales growth consistent with management guidance[2]
  - 2017 thru 2020: 5% organic growth excluding impact of loss of exclusivity; patent cliffs modeled per management guidance
  - No pipeline contribution[3]
- **Salix 2020 sales of ~$3.2bn consistent with sell side consensus prior to Valeant acquisition[4]**

## Margins & Tax

- **Management's $7.5bn 2016 EBITDA guidance implies ~57% EBITA margins**
  - Our model assumes the base business will earn ~57% EBITA margins through 2020, implying continued spend on promotion and R&D, despite no pipeline contribution
- **Assumes cash tax rate increases from ~5% today to 10% by 2020**

1: Pro-Forma January 1, 2015 close for Salix and Dendreon, excludes effects of Salix inventory destocking

2: Management forecast dates 2015 = 2/23/15, 2016 = 11/14/14

3: We exclude Brimonidine from management's 2016 forecast

4: Consensus as reported in Evercore ISI Febuary 23, 2015 report

# Platform Valuation Model Assumptions - Sources and Uses of Cash

## Sources of cash

- **Operations:**
  - 90% of Adj. Net Income converts to Cash Income
- **Leverage:**
  - Annually leverage balance sheet to 4x trailing Net Debt/Pro-Forma LTM EBITDA

    → Current leverage is >5.5x Net Debt/Pro-Forma LTM EBITDA
  - 5.75% cost of debt

    → Cost of debt for Salix transaction = ~5%

# Platform Valuation Model Assumptions - Sources and Uses of Cash

## Uses of cash

- **Acquisition financing and timing:**
  - Acquisitions are cash financed
  - Acquisitions are made at start of year
  - Valeant acquires assets until annual M&A cap or leverage limit (4x Net Debt/Pro-Forma LTM EBITDA) is reached
- **Four acquisition cases:**
  - $0bn of acquisitions per year
  - Up to $5bn of acquisitions per year
  - Up to $10bn of acquisitions per year
  - Up to $20bn of acquisitions per year
- **If Valeant has additional debt capacity (up to 4x) after acquisitions, cash is used to buy back stock at 18x trailing earnings**