S. HRG. 114–846

VALEANT PHARMACEUTICALS' BUSINESS MODEL: THE REPERCUSSIONS FOR PATIENTS AND THE HEALTH CARE SYSTEM

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING

UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

WASHINGTON, DC

APRIL 27, 2016

Serial No. 114–24

Printed for the use of the Special Committee on Aging

Available via the World Wide Web: http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

48–176 PDF WASHINGTON : 2022

SPECIAL COMMITTEE ON AGING

SUSAN M. COLLINS, Maine, *Chairman*

ORRIN G. HATCH, Utah
MARK KIRK, Illinois
JEFF FLAKE, Arizona
TIM SCOTT, South Carolina
BOB CORKER, Tennessee
DEAN HELLER, Nevada
TOM COTTON, Arkansas
DAVID PERDUE, Georgia
THOM TILLIS, North Carolina
BEN SASSE, Nebraska

CLAIRE MCCASKILL, Missouri
BILL NELSON, Florida
ROBERT P. CASEY, JR., Pennsylvania
SHELDON WHITEHOUSE, Rhode Island
KIRSTEN E. GILLIBRAND, New York
RICHARD BLUMENTHAL, Connecticut
JOE DONNELLY, Indiana
ELIZABETH WARREN, Massachusetts
TIM KAINE, Virginia

PRISCILLA HANLEY, *Majority Staff Director*
DERRON PARKS, *Minority Staff Director*

C O N T E N T S

VALEANT PHARMACEUTICALS' BUSINESS MODEL: THE REPERCUSSIONS FOR PATIENTS AND THE HEALTH CARE SYSTEM

WEDNESDAY, APRIL 27, 2016

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The Committee met, pursuant to notice, at 3:30 p.m., Room 216, Hart Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Corker, Cotton, Tillis, McCaskill, Casey, Whitehouse, Gillibrand, Blumenthal, Donnelly, Warren, and Kaine.

OPENING STATEMENT OF SENATOR SUSAN M. COLLINS, CHAIRMAN

The CHAIRMAN. The hearing will come to order.

Good afternoon. This is the third hearing in our bipartisan investigation into prescription drug pricing. Today we will focus on Valeant Pharmaceuticals and four drugs it controls: Syprine, Cuprimine, Nitropress, and Isuprel. These drugs had been affordable and easy to obtain for decades, but after Valeant acquired them, their prices went through the roof.

For example, Nitropress, used to treat dangerous cardiac conditions and typically found on hospital crash carts, cost about $215 per vial at the time of its acquisition by Valeant. The very day the deal closed, Valeant hiked the price to about $650 and later to $880—a 310-percent increase. The price increases for the other three drugs were even worse: 720 percent for Isuprel, almost 3,200 percent for Syprine, and nearly 6,000 percent for Cuprimine.

As we will hear from the witnesses on our first panel, these enormous and unwarranted price hikes have had far-ranging and severe impacts on patients, hospitals, and our health care system.

Valeant is much larger and more established than either of the companies once headed by Martin Shkreli that were the focus of our last hearing. Like Turing and Retrophin, Valeant also captured decades-old drugs and charged unjustified prices but with far broader implications. In fact, it is telling that both Valeant and Mr. Shkreli identified the same two drugs for price manipulation.

In 2012, Mr. Shkreli negotiated a deal, which ultimately fell through, to buy Cuprimine and Syprine from Valeant. Around the

same time, Valeant was analyzing just how high a price increase it could impose on both of these drugs.

Valeant's monopoly model operates at the expense of real people. Over the course of our investigation, individuals from across the Nation have shared their stories with us. Just last week, a mother called us about her son, a young man with a disability who has been on Syprine for many years and now is on week four and counting without medication, which we know can have serious consequences for his health. Valeant's price hikes have made life-saving medications inaccessible for some patients who desperately need them.

Now, the company is quick to point to Valeant's Coverage Plus Program it instituted, claiming that this program helps "ensure patients have access to the medication they need." Testimonials, however, paint a very different picture. Many people do not even qualify, and those who may be eligible face a program that is inefficient, difficult to navigate, slow, and often too late.

Behind the scenes, Valeant documents show that the program was designed to benefit Valeant, the company, and to provide patient assistance only as a last resort.

Valeant has also stated that its price hikes were driven by the need to make "a reasonable return" and to ensure that its "business is sustainable." Indeed, this is exactly the standard line they gave to one of our witnesses, Berna Heyman, when she wrote to CEO Michael Pearson to ask why Valeant had increased the price of the medication she needs to control her Wilson disease. Mrs. Heyman raised the right question. Valeant spent nothing at all to develop the decades-old drug Mrs. Heyman requires, and no change in the drug's formulation explains the price hike. It costs Valeant just a penny or two for every dollar it makes on these four medications.

Our investigation has revealed that Valeant has already recovered the full cost of acquiring these four drugs, and the cost of manufacturing them is dwarfed by the net revenue they generate. It is also apparent that these medications make an outsize contribution to the company's net income.

We can find nothing to explain these dramatic price increases beyond Valeant's desire to take advantage of monopoly drugs. Its price-gouging strategy appears to be based on careful study of the FDA approval process. The company knows it often takes years before genetic competitors can clear the hurdles imposed by that process to enter the market and to compete. During that period, Valeant exploits its de facto monopoly.

To protect the American public, we must act to address these market failures. Our hearing today and, indeed, our investigation are intended to produce policy reforms, such as the legislation I have introduced with the Ranking Member, to fast-track the approval of certain generics, especially those that could compete with decades-old drugs that are vulnerable to abusive pricing as we have seen from Valeant and certain other companies. That is our goal.

I look forward to the statement of our Ranking Member, Senator McCaskill, who has been such a leader on this issue.

OPENING STATEMENT OF SENATOR CLAIRE MCCASKILL, RANKING MEMBER

Senator MCCASKILL. Thank you, Chairman Collins. I am glad to be here today for the third of our series of hearings about rising drug prices.

The first hearing that the Aging Committee held on this topic examined the market forces that have allowed some companies to raise prices for their products by hundreds or thousands of percentage points.

At our second hearing in March, we examined how a new breed of pharmaceutical companies have become very good at targeting drugs whose prices can be manipulated without generic competition, and they have a whole master plan for how they go about doing so systematically.

We also examined how these companies are being run by people who are not traditional pharmaceutical executives, such as Martin Shkreli and Ron Tilles, and the investors are playing an outsize role in these companies.

At the hearing today, we are here to look at Valeant Pharmaceuticals. By all accounts, Valeant is the company that perfected this model of strategic acquisitions and price hikes that made it Wall Street's dream come true—for a while, anyway, and it is not surprising that Valeant was such a Wall Street darling. Valeant Pharmaceuticals maintains some of the most visible relationships with hedge funds.

Since 2007, Valeant has had at least one and sometimes four executives from hedge funds like ValueAct and Pershing Square on its board of directors. In 2008, proving that they were not pursuing a traditional pharmaceutical business model, Valeant hired J. Michael Pearson as CEO. Mr. Pearson spent 23 years as a consultant at McKinsey and had not previously worked for a pharmaceutical company. Valeant's former CFO, Howard Schiller, had a similar background. He spent 25 years as an investment banker at Goldman Sachs, and together they ran Valeant with the single-minded goal of pumping up its stock prices as much as possible, which they did very successfully for quite some time.

At one point, the company was worth about $90 billion, more than some of the best-known names in pharmaceuticals. It was this sort of apparent free-for-all money grab that drew people like Martin Shkreli into attempting to replicate Valeant's success in exploiting market loopholes to make money hand over fist.

We are going to hear a lot of talk today about how Valeant cares about patients and R&D, but the documents do not bear this out. Valeant and its shareholders may have changed their tune in recent months, but make no mistake. This is the same company that less than a year ago, Bill Ackman from Pershing Square was publicly calling a "special purpose acquisition company," which is a shell company created for the purpose of buying other companies. At the same time, he was emailing Valeant's CEO after a quarterly earnings call to tell him that he sounded "too defensive" on price increases.

Today we will hear from Mr. Ackman again, but instead of hearing about how Valeant is a special purpose acquisition company, we are going to hear about how productive Valeant is in drug de-

velopment and how much Valeant strategically invests in R&D for the good of society.

I have some questions about that because the last time I checked, Valeant spent about 3 percent of its revenue on R&D.

I think it is very telling that in the thousands of documents the Committee has reviewed in this investigation, there was little mention of what Valeant's business model of buying companies and drugs, slashing R&D budgets, and raising prices was doing to help the health care system, patients, or families. Even Valeant's Patient Assistance Program appears to be set up solely to increase Valeant's bottom line.

Furthermore, currently there are more questions than answers regarding Valeant's relationship with Philidor, the pharmacy that was managing a key patient assistance program for Valeant. We have included several documents in the hearing record that shed some light on Valeant's relationship with Philidor, but they provide only a glimpse into the arrangement, and I hope to continue our exploration of how Valeant and other pharmaceutical companies use those so-called specialty pharmacy relationships.

I know we are going to hear about the regrets, the regrets from Mr. Pearson and Mr. Schiller, who made Valeant what it is today, the regrets they have about Valeant's past behavior, and there certainly have been repercussions. Valeant will be getting a new CEO in a few weeks, but although Mr. Schiller is no longer part of company management and Mr. Pearson will no longer be at the helm of the company, Mr. Ackman and another Pershing Square colleague remain on the board, and to date, the price of Nitropress is still $880 per 2-milliliter vial, the price of Isuprel is still $17,901 for ten 5-milliliter vials, and the price of Cuprimine is still a whopping $26,188 for 100 pills.

In fact, yesterday a report was issued by Wells Fargo, and I quote from that report—these price increases have not stopped. Let me quote from their report that Wells Fargo Equity Research issued yesterday: "We remain convinced that price increases have been and continue to be the key driver of Valeant growth." We estimate even in Q1 2016, based on IMS and Price Rx data, that the average price of Valeant's top 30 products is up 78 percent year over year just in the first quarter.

As for turning over a new leaf, I remain skeptical. This hearing is not about demonizing capitalists or destroying free markets. These hearings are really grappling with the biggest threat to our country: the debt. Our debt is being driven by health care costs. The notion that we can sit idly by while smart people on Wall Street can do ledger entries to create another layer of profit in the health care sector to benefit multimillionaires on the backs of patients, and ultimately taxpayers, cannot continue to happen.

A greedy mentality of identifying companies that can be acquired simply by where you can get away with raising prices by the largest percentage possible has real public policy and health care ramifications, and make no mistake. You can try to dress up this business model with do-good sounding phrases, but it is very simple. Purchase the companies that develop a drug that has little to no competition, give them a healthy profit, fire the scientists, and jack the prices up as high as you possibly can get away with. It is using

patients as hostages. It is immoral. It hurts real people. It makes Americans very, very angry.

In case you have not noticed, the real ramifications in our political process going on right now could lead to instability of our Government, our economy, and our standing in the world. Pigs get fed, hogs get slaughtered. It is time to slaughter some hogs.

I thank the witnesses for being here today, and I look forward to hearing their testimony.

The CHAIRMAN. Thank you very much, Senator McCaskill.

Before I turn to our fist panel of witnesses, I would ask unanimous consent that the exhibit binder be entered into the record. I would lift it to show my colleagues, but it is too—thank you, Senator Tillis. Is there objection?

[No response.] Hearing no objection, it will be entered into the record.

We now turn to our first panel of witnesses. I want to thank each of you for taking the time to be with us today, and I will turn to Senator Kaine to introduce our first witness, who is from his home State, the Commonwealth of Virginia.

Senator KAINE. Thanks, Madam Chair, and to the Chair and Ranking Member for holding this important hearing.

I am very happy to introduce a Virginian, Mrs. Berna Heyman, who has been described in some of the opening testimony by our Chair and Ranking Member. Mrs. Heyman has lived in the Commonwealth of Virginia for more than 40 years. Before retirement, she was the associate dean of libraries at the College of William & Mary, a fantastic institution. She continues to be involved in her community by serving on the board of directors of the Christopher Wren Association for Lifelong learning, which is also at William & Mary, and several other community organizations. Her husband, Joseph, who is a retired research scientist at NASA, has also traveled here to be with her today. Ms. Heyman contacted the Committee last month to share her experience accessing the medication she needed to treat her Wilson disease after Valeant purchased the drug and dramatically increased the price, and we will hear her story, but I want to thank Ms. Heyman for reaching out to us, for sharing your story so that the American people can benefit thereby.

Thank you, Madam Chair. That is my introduction, and welcome, Ms. Heyman.

The CHAIRMAN. Thank you very much, and I, too, welcome the witness.

Next we will hear from Dr. Frederick Askari, an associate professor and the director of the Wilson disease Center of Excellence at the University of Michigan Health System in Ann Arbor, Michigan.

Finally, I would invite Senator Donnelly to introduce our last witness on this panel who hails from his home State of Indiana.

Senator DONNELLY. Thank you, Madam Chair.

Thank you, Chairman Collins and Ranking Member McCaskill, for inviting Dr. Richard Fogel to testify at today's hearing. Dr. Fogel is the chief clinical officer of St. Vincent Health, a 20-hospital system which includes St. Vincent Indy, Evansville, the St. Vincent Heart Center, the largest and highest rated heart program in the

State. Previously, he was the chief executive officer of the St. Vincent Medical Group.

Dr. Fogel earned his bachelor's and medical degrees from Brown University. He completed his internal medicine residency and cardiology fellowship at Boston University Medical Center. He completed his 2-year electrophysiology fellowship at BU and at St. Vincent's. Dr. Fogel continues with a busy clinical practice also in cardiac electrophysiology. He is widely published in journals, including the Journal of the American Medical Association, the American College of Cardiology, and Heart Rhythm, the journal of the Heart Rhythm Society.

He has been actively involved in the Heart Rhythm Society. From 2008 to 2011, he served as chairman of the Health Policy Committee and has been a member of the board of trustees since 2008. In 2014, he was elected the society's president. He is currently the past president and chairman of the Governance Committee.

Dr. Fogel, thank you so much for being here with us today.

The CHAIRMAN. Thank you very much, Senator Donnelly.

I am going to ask the witnesses to stand since, pursuant to Committee Rules, all fact witnesses must be sworn in. Will you please raise your right hand as I administer the oath? Do you swear that the testimony you are about to give to the Committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Ms. HEYMAN. I do.

Dr. ASKARI. I do.

Dr. FOGEL. I do.

The CHAIRMAN. Thank you. Let the record reflect that all the witnesses responded in the affirmative.

Mrs. Heyman, we will start with your testimony.

STATEMENT OF BERNA HEYMAN, WILSON DISEASE PATIENT, AND RETIRED ASSOCIATE DEAN OF LIBRARIES, COLLEGE OF WILLIAM & MARY, WILLIAMSBURG, VIRGINIA

Ms. HEYMAN. Good afternoon, and thank you, Chairman Collins, Ranking Member McCaskill, and distinguished members of the Committee, for holding this hearing. My name is Berna Heyman, and I am here today to share my personal experience as a Wilson disease patient confronted with sudden and dramatic increases in drug pricing, and also to speak for others with devastating illnesses facing high drug price increases.

Having Wilson disease is like being stuck in a tunnel. This genetic disease is bad enough with its many uncertainties, risks of organ or cognitive failure, but the exit to the tunnel is barricaded because of obscene drug costs. The cost increased by a factor of more than 20 over the past 5 years. The drug is essential. People can die without it. The drug company deserves the right to make a profit, but it is unconscionable that one company, Valeant, can hold Wilson disease patients hostage.

WD is treatable. With proper medication, progress of the disease can be halted and a patient can live a normal life. Treatment is aimed at removing excess copper and preventing reaccumulation. Treatment for Wilson disease is lifelong.

I was undiagnosed for 60 years, making me one of the older individuals to survive that long without medical intervention. I was shocked when a radiologist informed me I had cirrhosis of the liver. A DNA test confirmed that I had Wilson disease, and I immediately began taking Syprine.

I was a librarian at the College of William & Mary and had very good health and drug insurance. Upon retirement, I was insured through Medicare, including Part D, along with supplemental insurance.

Syprine has been around for more than 30 years. It is an old drug. As I understand it, Valeant did not spend a cent on research and development for this drug. Valeant purchased the drug in 2010 and began increasing prices. My copay for Syprine was under $700 per year until 2013. By 2014, my projected copay exceeded $10,000 per year with my insurance paying over $260,000 per year. That is untenable. Something has to be done.

My doctor and I applied for Valeant's Patient Assistance Program, and I was denied financial assistance. I then wrote Michael Pearson, the CEO of Valeant, asking why there was such a dramatic price increase. Valeant Customer Service replied: "the investments to develop and distribute novel medicines are only viable if there is a reasonable return on the company's investment."

The president of the Wilson Disease Association and my doctor communicated with Valeant representatives and were told I did not qualify for aid because I was on Medicare. I also applied to the Patient Access Network Foundation and was told my income precluded support from their foundation.

My doctor and I then discussed switching to an alternative. In October 2014, I switched to Galzin, a zinc salt. Galzin works differently than Syprine. It inhibits the absorption of copper rather than extracting it. Is this treatment sufficient for me? We are still monitoring its effectiveness. Galzin costs me about $480 per year. The only reason I changed was the cost, even though none of the cost is covered by my insurance. My health was stable with Syprine, and my doctor and I made the change only under duress. Galzin is not the preferred treatment for me.

A year after I stopped taking Syprine, a reporter from the Financial Times interviewed me and then talked to Valeant about my case. Later that day, a Valeant representative called offering to help. He noted that while Valeant strives to help everyone, there are limits because of the Government. He said he might be able to work with me as an exception. I told him I did not want to be an exception. I wanted everyone to have the same opportunity. If the money for assistance comes from insurance companies, "we" are still paying. If the money comes from the Government, "we" ultimately pay the price. Shifting who pays does not solve the problem.

Then a local florist called inquiring where to deliver flowers. They told me Valeant sent the flowers with a note saying it was a pleasure talking to me and to let them know if they could be of assistance. I refused the flowers and asked that the sender be informed of my refusal.

My doctor and I received letters stating I was enrolled in the assistance program and receiving free Syprine—which was not true. A message was also left on my phone asking if I still needed help.

All of this happened more than a year after I stopped taking Syprine.

This is my story. I am fortunate, but I do not want others to face these same challenges. I do not have answers, but as a victim of this disease and the outrageously high cost of the preferred drug to treat the disease, I do question how Valeant can justify, financially and morally, how increasing the price of Syprine can be done since it is an old drug, out of patent, and has been reasonably priced until they began manufacturing it.

Thank you for the opportunity to address the Committee today and for the opportunity hopefully to contribute to some action to stem this contemptible development in the pricing of orphan drugs. I look forward to answering any questions you might have.

The CHAIRMAN. Mrs. Heyman, thank you so much for your eloquent and compelling testimony.

Dr. Askari.

STATEMENT OF FREDERICK K. ASKARI, M.D., PH.D., ASSOCIATE PROFESSOR, AND DIRECTOR, WILSON DISEASE CENTER OF EXCELLENCE, UNIVERSITY OF MICHIGAN HEALTH SYSTEM, ANN ARBOR, MICHIGAN

Dr. ASKARI. Good afternoon, and thank you, Chairman Collins, Ranking Member McCaskill, and distinguished members of the Committee, for holding this hearing. My name is Dr. Fred Askari, and I serve as director of the Wilson Disease Center of Excellence at the University of Michigan. I directly treat over 400 Wilson disease patients and consult on dozens of other cases.

Wilson disease is a rare genetic disorder of copper processing that is fatal if not diagnosed and treated. Copper is in the food we eat, and it is an essential trace element necessary for life. In people with Wilson disease, due to a genetic defect, copper accumulates to toxic levels. Copper overwhelms the body, chiefly damaging the liver and brain.

Wilson disease is generally completely manageable with proper treatment; however, it is a uniformly fatal disease if left untreated. It can be a crippling disease if copper levels are not well controlled or if the diagnosis is not made early enough. Risks of going untreated vary and depend on the State of disease control at the time, but toxicity can onset in as few as several weeks after stopping treatment. Risks of not treating Wilson disease or gaps in treatment include liver failure, brain damage, and death.

While there is no known prevention or cure for Wilson disease, there are treatment options, and people managing the disease with medication are often able to live full, healthy, and productive lives. The medications must be taken daily for life. Treatment options utilize two types of action: chelating agents that prompt the organs to release copper into the bloodstream to be filtered by the kidneys and eliminated through the urine; and zinc-based therapies which prevent the body from absorbing the copper. The standard of care has called for utilizing a chelating agent at least initially to remove the excess copper, and when copper levels are stabilized, patients move to a daily maintenance therapy either through continuing on a chelating agent or switching to zinc.

Historically, the first line of treatment for Wilson disease was penicillamine, known by the trade name Cuprimine. This is a chelating agent that works by removing excess copper. It has been used to treat Wilson disease since 1956. While penicillamine continues to work for many, it is no longer the default for every patient because approximately one-third of patients experience adverse side effects from this drug. The gold standard for initial treatment today is trientine, or Syprine, which causes fewer side effects.

Once the patient has been stabilized with Syprine, some patients can be switched to zinc treatment. The FDA-approved zinc acetate is called Galzin and prevents the body from absorbing copper. In some patients, Galzin causes extreme stomach upset and gastrointestinal problems.

The persistently increasing price of Valeant's Wilson disease drugs poses a problem for up to half my patients. One patient was denied coverage and left off treatment completely for several weeks. Another, a 17-year-old, lives in fear of losing coverage when he turns 24, as his mother was forced to take early retirement. Access to appropriate treatment is especially a problem for seniors with Medicare.

I have worked with dozens of patients to obtain Syprine through Valeant's Patient Assistance Program. It is time-consuming and frustrating. My clinic has had to hire two full-time employees just to deal with the red tape caused by the price hikes, such as the paperwork for patient assistance programs and associated insurance claims. Even when patients are approved for patient assistance, they cannot be certain they can stay in the program, and they have to reapply every year.

While the process of applying for patient assistance programs is difficult enough as it is, it is especially difficult for some Wilson's disease patients. Some have neurological conditions, which can make it even more difficult for them to navigate the programs. Many patients who are able to get the drug they need worry they may lose access in the future and may hoard pills or skip doses trying to prevent being caught without the drug at some time if there is a lapse in coverage.

Finally, I am not here to cast blame on the entire drug industry. Ethical pharmaceutical companies do support research, which provides new and improved treatments for diseases. Wilson's patients have many unmet needs with current treatments. Based on an expectation of reasonable investment returns, companies invest in developing these new treatments, such as gene therapy, once-daily dosing regimens, and novel therapies such as one being investigated, TM, which offers hope for improved neurological outcomes. We are fortunate that there are companies which safely manufacture, test, and distribute medications for rare diseases. One should not confuse companies which institute sudden and dramatic price increases on longstanding critical drugs with those which are truly developing new ones. There is an enormous human cost associated with these practices. I urge Congress to work diligently to arrive at policies that will protect patients while maintaining incentive for new life-saving therapies.

I thank the Committee for investigating this important issue and for the opportunity to share my concerns. I look forward to answering your questions.

The CHAIRMAN. Thank you so much, Doctor, for your terrific testimony as well.

Dr. Fogel.

STATEMENT OF RICHARD I. FOGEL, M.D., F.A.C.C., F.H.R.S., CHIEF CLINICAL OFFICER, ST. VINCENT, INDIANAPOLIS, INDIANA

Dr. FOGEL. Senator Donnelly, thank you for the kind introduction. Chairman Collins, Ranking Member McCaskill, and members of the Committee, thank you for holding this hearing today to explore recent hyperinflation in pharmaceutical pricing.

As mentioned, I am a practicing cardiologist and electrophysiologist and also the chief clinical officer for St. Vincent, which is part of Ascension, the Nation's largest nonprofit and Catholic health system, with 137 hospitals in 24 States and the District of Columbia. St. Vincent is one of Indiana's largest employers, with 20 hospitals serving 57 counties.

As chief clinical officer for St. Vincent, I work hard to focus our providers on achieving what has been called the "Quadruple Aim" of population health: to improve the health of populations, reduce the cost of care, and enhance the patient and provider experience. Rising drug prices are contrary to the goals of the Quadruple Aim.

Let me say that as health care providers, we cannot provide the quality care that our patients deserve without the partnership of the pharmaceutical industry. We need to protect intellectual property and reward innovation. We understand that in certain circumstances the price of a drug may be at a reasonable premium when that drug represents a true clinical advancement or breakthrough in treatment. What I find particularly troubling is when drugs that have been around for decades are suddenly and steeply increased with no apparent justification.

As a cardiologist who specializes in electrophysiology, I have seen firsthand the impact of price increases in two drugs in particular: Isuprel and Nitropress. When Valeant Pharmaceuticals purchased these drugs in 2014, St. Vincent saw the unit price of Isuprel increase from approximately $200 per vial to approximately $1,265 per vial. We saw Nitropress increase from about $200 per vial to about $730 per vial. Combined, these two drugs alone resulted in a nearly $900,000 increase in expense to St. Vincent and a $12 million increase in cost to Ascension in 1 year.

We have made substantial efforts to reduce our usage of these drugs where it has been evidence-based and have been able to achieve reductions, but for some uses, these two drugs are preferred by many physicians and sometimes have no good alternatives.

I would also like to note that this work carries cost. It takes months to gather the data, create potential alternatives, socialize, move through an approval process, and then implement. We will not compromise patient safety and will not recommend switching to an alternative unless the switch is evidence-based and will not have an adverse impact on patients.

What is disheartening is that all this work can be wiped out with a stroke of a pen by a pharmaceutical company with no equivalent patient benefit. Steep price increases do not serve patients, but they do serve the company's bottom line.

Pharmaceutical cost increases have a real and measurable impact on the patient. Eventually, these increased drug costs will contribute to higher insurance premiums and higher costs for patients. More immediately, our decreased margins affect our ability to provide other patient services.

For example, one program that I am most proud of is our Rural and Urban Access to Health initiative, in which we send health access workers to our communities to assist those who are poor and vulnerable sign up for insurance and connect them with other community resources.

We are also developing initiatives to fight the opioid epidemic. However, increasing budgetary pressures from higher drug costs impact the creation of these programs which serve our most vulnerable.

Finally, it is important to note that many small community and critical access hospitals operate on tight margins. In recent years, we have seen more of these hospitals close because the financing was simply unsustainable. While pharmaceutical inflation is not the only factor in this burden, it is a significant factor, and left unchecked, it will contribute to the closing of more community hospitals.

We appreciate the Committee's attentiveness to the issue, and we strongly support the market-based policy solutions released by the Campaign for Sustainable Drug Pricing earlier this week that include additional price transparency, competition, and value. We would also urge your support for the 340B program.

At Ascension and at St. Vincent, we are dedicated to providing spiritually centered, holistic care that sustains and furthers both individual and community health.

Thank you for your time today. We look forward to working with Congress to improve the health of our populations, reduce the cost of care, and enhance the patient and provider experience, and on a personal note, I would really like to thank Mrs. Heyman for coming forward. As a physician, I know how much guts and courage it takes to make your medical history public, and you have done us a great service, so thank you.

The CHAIRMAN. Thank you, Dr. Fogel. You have summed it up well.

Mrs. Heyman, in 2013, you applied for the Valeant Patient Assistance Program and you were denied. Then in 2015, after you talked to the media about your experience and about the outrageous price increase, Valeant calls you and offers to enroll you in the very same patient assistance program for which you had earlier been denied, and they made an additional offer of free medication.

Had anything significant changed with your income, your insurance status, or other factors between 2013 when Valeant turned you down and 2015 when Valeant contacted you after you had talked to the media? If you could turn on your mic, please. Thank you.

Ms. HEYMAN. There were no changes in my income, in my insurance. The only change was that I had talked to the press.

The CHAIRMAN. Well, I think that that is, in fact, what caused them to contact you.

Dr. Askari, it is my understanding that you either teat Wilson's disease with a drug like Syprine or Cuprimine or eventually in some cases, if the patient is appropriate for it, you treat it through a liver transplant. I am curious which is less expensive today, given these price increases: paying for a liver transplant and a lifetime of organ rejection drugs, or paying for a lifetime of Cuprimine or Syprine, the drugs that have been around for decades and cost very little to manufacture?

Dr. ASKARI. Well, first, I would like to say no one should get a liver transplant if they do not need it. You know, it would be very wasteful to give a transplant to someone when there are other treatments for their disease, but the cost of a transplant is generally estimated at about $100,000, and the cost of the medications are about $40,000 a year; whereas, Syprine's costs a month are $40,000, roughly, so we are talking about a 12fold difference in drug prices between all the antirejection meds and other medications and the one drug to treat Wilson disease. Obviously, that is a striking number.

The CHAIRMAN. It is indeed, and the reason I ask the question is to try to put it in context of just how expensive these drugs have become.

I understand that you serve on the Wilson Disease Association Medical Advisory Committee and that you have been treating patients with Wilson disease for more than two decades. Prior to Valeant's acquisition of Cuprimine and Syprine, did you or any of your colleagues, to the best of your knowledge, at the Wilson Disease Association ever encounter a situation where patients were unable to acquire these drugs at affordable prices?

Dr. ASKARI. Not in the United States. Merck was an ethical drug company that provided this drug, and in large part I think as a public service at a reasonable price, what seemed to me a reasonable price at the time, about $120 a month, so we are looking at quite a difference.

Obviously, you know, in the past the Wilson Association has looked at Third World countries and wondered how we could get access to these drugs, but we never thought it would be a problem here in an affluent country like the United States.

The CHAIRMAN. Dr. Fogel, you mentioned the impact on community hospitals and critical access hospitals, and I surveyed some of the hospitals in my State and found that they were having great difficulty in dealing with these price increases for Nitropress and Isuprel, which they keep on their hospital crash carts. Even a larger hospital in Maine like Eastern Maine Medical Center has shown that its costs for Isuprel, for example—or let me use Nitropress, in 2013, was $11,250. That soared to $206,500 for the same amount of Nitropress. For a smaller community hospital, the impact is even greater.

Could you tell us a little bit more about the threat that increases in decades-old drugs' prices poses for community hospitals that may be operating on the edge to start with?

Dr. FOGEL. Absolutely. Thank you, Chairman Collins, for the question. Rural and community hospitals are so critical to take care of a lot of our population, and these hospitals operate on a very thin financial margin. I just read earlier this month that 71 critical access hospitals closed within the last couple of years. Seventy-one communities do not have hospitals anymore. That is terrible.

You know, there used to be a hospital named St. Vincent—now, it was not affiliate with my St. Vincent, but there used to be a hospital called St. Vincent in downtown Manhattan. It was the place where the first responders from 9/11 went. That hospital is closed now. Hospitals close, and when price increase on drugs unnecessarily, it puts tremendous burden and pressure on the hospital finances, and left unchecked, if this rate of inflation continues, we are going to see more hospitals close, and that is just terrible.

The CHAIRMAN. Thank you for your testimony.

Senator McCaskill?

Senator MCCASKILL. Thank you.

Dr. Fogel, Valeant has said that they have turned over a new leaf, that they have had a conversion on the road to Damascus. They have claimed they are now offering up 30-percent discounts to hospitals, both large and small. This is after they have increased prices by over 500 percent on some of these drugs.

The Committee, Chairman Collins and I, received a letter from Johns Hopkins Hospital about two Valeant drugs, Nitropress and Isuprel, that the Chairman was just referring to. Let me read very quickly a couple of sentences from that letter. "To date, the Johns Hopkins Hospital has neither received discounts nor the offer of discounts from Valeant for the inpatient use of these drugs. After spiking more than 1,000 percent in 2 years, the price of both drugs has remained at their peak for the last 6 months."

I decided to check in with some Missouri hospitals about whether they have been offered these elusive and alleged discounts by Valeant. I asked urban hospitals and rural hospitals. I asked large hospitals and small hospitals, and I want to put on the record how many of them reported to me and my staff that they had received discounts from Valeant. That would be zero.

Let me ask you, Dr. Fogel, has your hospital or the Missouri-based Ascension Health System that you are part of received any discount from Valeant for Isuprel or Nitropress?

Dr. FOGEL. I would like to clarify that I do not negotiate directly with the drug companies, but I asked the question to those who do, and we have not received nor have we been offered any discounts on Nitropress or Isuprel.

Senator MCCASKILL. Thank you, Madam Chairman. I have no more questions for this panel. I want to thank you, though, Mrs. Heyman, for coming forward and talking about what you encountered, and I think what is important for all of us to remember is how many thousands of people you represent across a wide variety of drugs where patients are caught in a financial sector/Wall Street maneuvering that is putting you in such a difficult position. Thank you for coming and making this problem real for us, and I hope for all of our colleagues, so we are more motivated to see what we can do to stop this activity in its tracks.

The CHAIRMAN. Thank you, Senator.

Senator Tillis?

Senator TILLIS. Thank you, Madam Chair and Ranking Member. You all have done a great job on similar hearings, and I look forward to the next panel, but not in a good way.

Dr. Fogel, I had a question for you. It is similar to a question I asked a hospital administrator from North Carolina when we were dealing with Turing, who I think is an example of the worst kind of pharmaceutical company out there, but can you talk a little bit about the other cost if this drug is not available? You have got the cost to the patient, but if this drug is not available, the other costs related to caring for the patient who actually pays for that?

Dr. FOGEL. It is really important that we take great care of patients, and we are going to use the drug if it is the right drug to use, but we like to develop alternatives, particularly with these increased costs in Isuprel and Nitropress, but there is a cost to that. There is a cost because it takes a lot of time and energy and resources to explore the different alternatives, to look for the evidence to say are these alternatives equivalent, because we are not going to sacrifice patient safety; and then if we determine they are, to implement them broadly across our system.

It is so interesting that the costs that we spend for Nitropress and Isuprel is now, despite a reduced utilization of these drugs, still higher than it was before the 2014 price increases, so the cost is not only the cost, but the cost goes far beyond that in the development of these alternatives and the socialization of these alternatives.

Senator TILLIS. Thank you.

Dr. Askari, I believe you mentioned that a lapse in treatment or gaps in treatment can lead to various complications, and you mentioned liver failure, brain damage, and other life-threatening health outcomes. It may vary, I assume, from patient to patient, but what is the typical timeframe before lack of access to this drug could start causing those complications?

Dr. ASKARI. Well, I think, you know, it depends on how well the copper is controlled when the drug is withdrawn and how much damage has already been done to the brain and the liver before it is withdrawn, so if someone is in the initial phase of treatment, a 2-or 3-day lapse might even be a critical juncture for that individual.

Senator TILLIS, Whatever you have to do to intervene to stabilize the patient are additional costs that either insurance companies, taxpayers, or the individual are paying.

Dr. ASKARI. Right, and let me be clear: Death is one of the possible outcomes of withhold treatment. I mean, we are not just talking about costs here. We are talking about human lives that are being lost if they do not get access to the drugs.

Senator TILLIS. Another question that I had actually I think for you, Dr. Askari, relates to the nature of rare diseases, that, you know, some people may think that rare diseases only affect a very small population. Can you enlighten this group a little bit more about the nature of not only Wilson's but the impact on are diseases and the population as a whole?

Dr. ASKARI. Yes. I also sit on the board for NORD, a rare disorders organization, and basically one in nine Americans have a rare disease, so in aggregate, they are very common, so even though we have these isolated incidences of a disease affecting a few thousand or a few hundred or even 100,000 people, the definition of a rare disorder based on FDA criteria is less than 200,000 patients in the country makes it a rare disorder, but one in nine Americans have a rare disorder, so in aggregate, they are very common, and, you know, this is a major issue that I think all people with rare disorders are interested in.

Senator TILLIS. You could see where a firm that may want to target a population, the rare disease population would be a good one if there happens to be a relatively low-cost drug that is an adequate treatment, they can get to a base that may not have a broad constituency or network to help them defend against the practices, so that just makes this practice, I think, even more despicable than it already is.

Dr. ASKARI. It is a vulnerable patient population.

Senator TILLIS. Well, thank you for that.

Ms. Heyman, I just wanted to thank you for coming forward and helped shed light on this practice.

Dr. Askari, I also wanted to mention—you said something that I meant to mention when I first asked you a question. We need to be very careful when we have these hearings to distinguish between what are unethical practices and the Turings of the world—we are here to talk about Valeant and hear their case today—but that there are numbers and numbers of ethical drug companies that their research is saving lives and that we do not want to sweep this entire industry into the same category of some of the bad actors that the Chair and the Ranking Member have rightfully brought before this Committee, so I particularly appreciate your insights into that during your testimony, and I thank you all three for being here.

Thank you, Madam Chair.

Dr. ASKARI. Thank you.

The CHAIRMAN. Thank you very much, Senator Tillis.

Senator Donnelly?

Senator DONNELLY. Thank you, Madam Chair. Dr. Fogel, thank you. We are very proud of you, and I want to thank the whole panel.

Dr. Fogel, you talked a little bit about their efforts to work together or not work together with you. Now, when you look at Ascension, correct me if I am wrong, but is Ascension the largest Catholic health system in the country?

Dr. FOGEL. I think it is the largest Catholic health system in the world.

Senator DONNELLY. You are the largest Catholic health system in the world, and Valeant said they have created a volume-based rebate program to address the concerns of hospitals, that any hospital not able to access this program should contact the company directly, and as far as you know, as of today, had absolutely no success in being part of that.

Dr. FOGEL. I spoke to the people who would be part of that.

Senator DONNELLY. Yes.

Dr. FOGEL. They had conversations, and then they said that the emails went unanswered and the phone calls went unanswered, and they were left with no discounts and no rebates.

Senator DONNELLY. To the largest Catholic health system in the entire world.

Dr. FOGEL. Yes.

Senator DONNELLY. It was not big enough, apparently.

Dr. FOGEL. It was not big enough, apparently, yes.

Senator DONNELLY. Mrs. Heyman, am I correct in my understanding that you still suffer from more pain and numbness than you experienced when you were able to afford Syprine?

Ms. HEYMAN. There are differences in how I feel and elements of my condition since I stopped taking Syprine. Some specifics are I had no cramps—I used to have cramps in my legs, bad cramps. When I started taking Syprine, they disappeared and I did not have them for 10 years. Once I went off of Syprine, I have gotten those cramps back again.

I have also begun having problems with indigestion and have had to start taking Prilosec, which I never had to take before while I was on Syprine.

Senator DONNELLY. You never would have changed if it was not for the extraordinary price increase, would you?

Ms. HEYMAN. That is correct. I would not have changed.

Senator DONNELLY. That is all I have for this panel. Thank you, Madam Chair.

The CHAIRMAN. Thank you very much, Senator Donnelly.

Senator Kaine?

Senator KAINE. Thank you.

Ms. Heyman, I have some other questions for you. I just want to followup on some elements of your testimony and, again, very glad you are here.

You wrote a letter about these price increases, and then the response you got from Valeant was basically to say that the increases were just because of the needs for research?

Ms. HEYMAN. Correct.

Senator KAINE. It looks like you might have it right there.

Ms. HEYMAN. I do.

Senator KAINE. If you would just read the relevant portion of it, that would be great.

Ms. HEYMAN. Yes. It was that, "We have implemented rate increases in Syprine at several stages over the past 6 months in order to bring the total cost of this drug in line with market rates of other orphan drugs. While there are many challenges associated with developing treatments for rare conditions such as Wilson disease, the investments we make to develop and distribute novel medicines are only viable if there is reasonable return on the company's investment and if our business is sustainable."

Senator KAINE. Okay, so there are sort of two reasons there. We want to bring it in connection with the prices for other orphan drugs could be completely unrelated to conditions. The orphan drugs are the ones where we kind of get into this patient as hostage model, so apparently this is kind of a profit center that folks are focusing on now.

When you read that letter, what was your reaction?

Ms. HEYMAN. Great anger, distress, outrage. I felt that the concept of health care was forgetting about the person, that I am an individual, I am a human, and it is not taking into account my needs as a human being but, rather, looking at a profit margin.

Senator KAINE. Later, after the—well, you reached out through your physician to try to get assistance from Valeant for, you know, various assistance programs, and they told you that they could not do anything, and they said kind of there are Government rules against it? That was kind of vague?

Ms. HEYMAN. Yes. That was basically—I was having a telephone conversation, and I kept notes of what was said, and that was what was said.

Senator KAINE. Then after you talked to reporters, suddenly there was assistance, so whatever those Government rules were apparently were not such an obstacle after all?

Ms. HEYMAN. No, I guess that those were the exceptions.

Senator KAINE. You were told that, you know, this was about research costs, and we know there was no research, and then you were told you could not get assistance because of Government rules, and that turned out not to be true as well.

The last thing I want to ask you is this: If you do not mind, what was it like to have that conversation with the doctor where you made the decision, you know, I do not know what the consequence is going to be as somebody suffering from Wilson disease, but we have just got to say we have got to go off the medicine? Just tell us what that discussion was like.

Ms. HEYMAN. It was actually a horrifying concept, that I had been very stable and leading a very good life, and I felt that I was taking a chance, but I did not feel that I had an option other than to take that chance.

Senator KAINE. Well, I am so glad that you are here to tell this story.

Ms. HEYMAN. Thank you.

Senator KAINE. It is going to help us. Thanks.

The CHAIRMAN. Thank you very much, Senator Kaine.

Senator Casey?

Senator CASEY. Thank you, Madam Chair. I want to thank the panel.

I wanted to focus my question or maybe two questions on Ms. Heyman, and I know you are the subject of a lot of questions. I hope you do not mind each of us asking you a number of questions. I want to start by citing part of your testimony. I am reading from I guess it is page 3, the last page of your testimony. You say, and I quote, "I do question how Valeant can justify, financially and morally, increasing the price of Syprine since it is an old drug, out of patent, and had been reasonably priced until they began manufacturing it." A very good question to ask, and I think we are all asking that and similar questions, and I appreciate you bringing that to our attention.

I wanted to ask you, I know that you have been active in the Wilson Disease Association, and we may have had an answer to this, but I am not sure that we did. Are you aware of any efforts that have been undertaken by either Valeant or its affiliates to reach out to the Wilson Disease Association to provide any kind of

patient support in the form of informational sessions regarding the disease or its patient assistance program, aside from forwarding a number for patients to call? Are you aware of any kind of outreach like that?

Ms. HEYMAN. I am aware that there were discussions between the president of the Wilson Disease Association and Valeant, and as a matter of fact, I had planned to take some actions and contact my Senators and Representatives and was told that they were making some progress with discussions with Valeant and to perhaps hold off on any other actions I might take. Other than that, I really could not speak.

Senator CASEY. They were asking you to refrain from contacting Members of Congress?

Ms. HEYMAN. This was not Valeant. Discussions had been going on between Valeant and the Wilson Disease Association, and the Wilson Disease Association people and doctors suggested that I hold off and see what would happen.

Senator CASEY. One of the challenges with the kind of egregious behavior here is encapsulating it in a manner that is understandable, because so much of what we are questioning today and asking ourselves about and asking the witnesses is so outrageous it is hard to describe to people, but is there anything else you would want to tell us about your experience that you hope we would benefit from in the course of pursuing either the questions in this hearing or otherwise in terms of policy?

Ms. HEYMAN. I am very proud to see this inaction and the fact that the Senate Committee has agreed to look at this issue, and I think that it is doing something for so many of us, and I would just add my appreciation for your listening.

Senator CASEY. Thank you very much.

The CHAIRMAN. I want to thank this excellent panel of witnesses. You have really put a human face on this problem.

Mrs. Heyman, I particularly want to thank you for coming forward and sharing your story. You are speaking for so many other people in the same situation.

Dr. Askari and Dr. Fogel, you also have greatly increased our understanding of the implications and consequences of these egregious and unjustified price hikes, so thank you very much for your time as well.

This panel is now dismissed, and we will move to the next panel. Thank you.

The witnesses will be seated, and the hearing will resume order, please.

First today we will hear testimony from J. Michael Pearson, the chief executive of Valeant.

Next we will hear from Howard Schiller, director, former chief financial officer, and former interim chief executive officer of Valeant.

Finally, we will hear from William Ackman, the founder and chief executive officer of Pershing Square Capital Management, L.P.

I would ask the witnesses to stand so that I may administer the oath. Do you swear that the testimony you are about to give will

be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PEARSON. I do.

Mr. SCHILLER. I do.

Mr. ACKMAN. I do.

The CHAIRMAN. Thank you. You may be seated, and let the record reflect that all witnesses answered in the affirmative.

Mr. Pearson, we will begin with your testimony.

STATEMENT OF J. MICHAEL PEARSON, CHIEF EXECUTIVE OFFICER, VALEANT PHARMACEUTICALS INTERNATIONAL, INC., BRIDGEWATER, NEW JERSEY

Mr. PEARSON. Chairman Collins, Senator McCaskill, and members of the Committee, thank you for the opportunity to appear today. I have served as Valeant's CEO since 2008. With the company's announcement of a new CEO this week, I will be leaving the company soon.

Over this time, Valeant has grown quickly and substantially. We are now a global pharmaceutical company with about 22,000 employees and approximately $12 billion in revenue. In the United States, we are a leading dermatology, gastrointestinal, ophthalmology, and consumer health care counterparty with brands like Bausch & Lomb, Retin-A, and CeraVe. Valeant makes and markets approximately 1,800 products, including more than 200 prescription drug products in the United States.

Price increases in a small segment of our company have overshadowed our activities in these broader areas, and I recognize that we, therefore, need to work to regain the confidence of Congress, the public, doctors, and patients.

As we grew rapidly, we made many decisions of which I am proud, such as launching new drugs, investing in R&D, and manufacturing here in the United States, but we have also made mistakes, including those that bring me here today.

In particular, Valeant was too aggressive and I as its leader was also too aggressive in increasing the prices of some of our drugs in our large portfolio of products. In hindsight, I regret pursuing transactions where the central premise was based on an increase in price, for example, our acquisition of Nitropress and Isuprel from Marathon.

We understand Congress' and the public's concerns about drug prices, and we have sought to respond.

First, we did create a volume-based price rebate program for Nitropress and Isuprel through two leading hospital group purchasing organizations, making the discounts widely available to hospitals across the United States.

Second, for prescriptions at retail pharmacies, we announced a new program with Walgreens that will provide substantial savings for patients. We will provide an average 10-percent list price reduction for a majority of our branded dermatology, ophthalmology, and women's health products, and up to a 95-percent reduction on certain branded products for which there is a generic alternative.

We also have longstanding patient assistance programs, including our programs for drugs that treat Wilson's disease. The programs include capped copays for commercially insured patients and

up to zero copays for patients below certain income levels. These programs are designed to ensure that out-of-pocket expenses do not prevent eligible patients from receiving the medicines that their doctors have prescribed. Valeant expects to spend more than $1 billion on patient assistance programs in the U.S. in 2016.

Moreover, Valeant makes significant and thoughtful investments in R&D. Our U.S. pharmaceutical R&D spending was about 8 percent of our U.S. brand pharmaceutical revenue last year, and we estimate that the total U.S. R&D spending will be about $400 million in 2016. We have 43 R&D facilities and approximately 1,000 R&D employees worldwide.

Our approach to R&D speaks for itself. Over the past 5 years, our R&D productivity is 7 times higher than the average of the 15 pharmaceutical companies with the most new drug approvals. In the last 3 years, the FDA has approved 6 new drug applications and issued 13 device approvals to Valeant. Among these are a number of drugs that Valeant advanced from the pre-clinical stage to final FDA approval, for example, Jublia and Onexton. Our U.S. R&D pipeline contains more than 200 active programs, more than 100 of which we consider significant. We have more than 20 active Phase II or Phase III studies spanning ophthalmology, dermatology, and gastroenterology. Our late-stage products include a treatment of moderate to severe plaque psoriasis and a topical treatment for glaucoma. These innovations directly contradict the narrative advanced by those who have sought to minimize our commitment to R&D.

Finally, I want to address one of my personal regrets. My public comments left the misimpression that shareholder interests were my only focus as CEO of Valeant. That is absolutely not the case, and it is not fair to the 22,000 Valeant employees who work every day to develop and make available important medicines for patients, nor to the doctors and patients that we serve. I am grateful for this opportunity to seek to correct this misimpression before my tenure as Valeant's CEO comes to an end in the near future.

Thank you again for the opportunity to testify today. I would be happy to answer your questions.

The CHAIRMAN. Mr. Schiller.

STATEMENT OF HOWARD B. SCHILLER, DIRECTOR, FORMER CHIEF FINANCIAL OFFICER, AND FORMER INTERIM CHIEF EXECUTIVE OFFICER, VALEANT PHARMACEUTICALS INTERNATIONAL, INC., BRIDGEWATER, NEW JERSEY

Mr. SCHILLER. Chairman Collins, Ranking Member

McCaskill, and members of the Special Committee on Aging, thank you for calling me to testify, and I am happy to be here today.

I joined Valeant in late 2011 as its chief financial officer. I stepped down from that position after June 2015, while remaining on the board of directors. I served as Valeant's interim chief executive officer for approximately 2 months at the beginning of 2016, as Mike Pearson was on medical leave. I am not currently a member of the management team but remain on the board today.

As you are aware, in February, I testified concerning drug price increases before the House Oversight and Government Reform

Committee. Also, on April 6, I was deposed on similar issues by members of the staff of this Committee. I spent a full day with the staff, and I hope I was able to provide information that will be useful to the Committee.

I have previously had the opportunity to be heard, I will spare this Committee a lengthy opening statement. I appreciate the chance to be here today, and I am happy to answer any questions the Committee may have for me.

The CHAIRMAN. Mr. Ackman.

STATEMENT OF WILLIAM A. ACKMAN, FOUNDER AND CHIEF EXECUTIVE OFFICER, DIRECTOR, PERSHING SQUARE CAPITAL MANAGEMENT, L.P., AND DIRECTOR, VALEANT PHARMACEUTICALS INTERNATIONAL, INC., BRIDGEWATER, NEW JERSEY

Mr. ACKMAN. Chairman Collins, Ranking Member McCaskill, distinguished members of the Committee, thank you for the opportunity to testify and to address your questions today.

I am the CEO of Pershing Square Capital Management, an investment firm I founded in 2003. Pershing Square manages several private investment funds and a publicly traded fund. Our investors include public and private pension plans, university endowments, foundations, and individuals.

Pershing Square is a highly concentrated investor. We typically own stakes in 10 to 12 companies which are often well-known North American companies. We are a long-term investor with a target holding period of about 4 to 6 years.

We often implement an active investment strategy in which we work to improve companies that have underperformed their potential. We do so by becoming a large shareholder, sharing our ideas, sometimes obtaining board representation, and assisting the company in making management, governance, and operational changes. While not every active investment we have implemented has been successful, the vast majority of companies in which we have played an active role have dramatically improved during our period of ownership and continue to do so years after we have exited.

We believe that thoughtful and engaged investors are good for public companies, for the capital markets, and for the economy more broadly.

Pershing Square has been a Valeant shareholder since February 2015, a little more than 1 year ago, when we purchased a 5.6-percent stake in the company. Initially, we were a passive investor in Valeant. Beginning this fall, we began to take a more proactive role with the company, and most recently, about a month ago, we became actively engaged in assisting the company when I and a colleague were invited to join the board.

I first met the Valeant management team in early 2014 when Pershing Square formed a joint venture with Valeant to pursue a merger between Valeant and Allergan. After acquiring a stake in Allergan in April of that year, Valeant and Pershing Square proposed a merger, and a takeover battle ensued. At that time we were not a shareholder in Valeant.

In the course of our joint efforts pursuing the Allergan merger, Pershing Square worked closely with Valeant. When the merger

did not occur, in February 2015, we became a Valeant shareholder. We believed and still believe that Valeant is a good company. We were attracted to its highly diversified product portfolio, its leading positions in ophthalmology and dermatology, strong management team, its low-cost and disciplined operating model, and its competitive advantage in acquiring other pharmaceutical products and companies.

We also liked Valeant's highly productive research and development companies which focused on later-stage, higher-probability drug development and the acquisition and licensing of new drugs and products. We found Valeant's approach to drug development, acquisitions, and licensing attractive because most large pharmaceutical companies have in recent years been unsuccessful in cost-effectively developing new drugs.

Most innovation in pharma in recent years has come from startups, biotechnology companies, nonprofit research labs, and university research programs. Once Pershing Square became a Valeant shareholder, we had much less interaction with management than we did when we were jointly pursuing the Allergan transaction. We did not expect to play an active role in our Valeant investment.

Then, in the fall of 2015, as a result of press reports and substantial negative public scrutiny regarding the pricing of two heart-related drugs as well as Valeant's investment in Philidor, a specialty pharmacy also under scrutiny, the company's stock price began to decline precipitously and continued to decline over the months that followed. Valeant has lost more than 85 percent of its value since August.

As a large shareholder of Valeant, I recognize that our investment was an implicit endorsement of Valeant's strategy, including aspects of their strategy about which we do not approve, namely, the rapid and large increases in the prices of certain drugs.

In order to protect our investment and the interests of our investors, we recently elected to take a much more active role at Valeant. On March 8, Steve Fraidin, the vice chairman of Pershing Square, joined the board of directors. On March 21st, about a month ago, I also joined the board in order to help stabilize the company, assist in a management transition, and play a more active role in the formulation of the company's strategy.

As a member of the CEO search committee of the board, I worked with the board to recruit new management over the last few weeks. This Monday, Valeant announced that Joe Papa, previously the chairman and CEO of Perrigo, will become Valeant's chairman and CEO. Joe has a 35-year superb track record in the industry, a reputation for forthrightness and integrity, and substantial expertise in all aspects of the pharmaceutical industry. I and the rest of the board are looking forward to working with him to make Valeant a leader in the industry and the communities it serves.

It is clear in retrospect that even as an initially passive investor in the company, we should have focused more attention on drug pricing issues at Valeant. Pharmaceutical companies play a critical role in our health care system, providing life-saving medications to patients like Ms. Heyman. The large price increases that are the

subject of today's hearing affected patients, damaged Valeant's reputation, contributed to health care inflation, and called into question the company's commitment to the patient its serves. I take seriously the responsibilities that come with my role as a new member of the Valeant board, and I am committed to ensuring that Valeant implements best practices with respect to drug pricing and maintaining the company's social contract with the patients and doctors it serves.

Thank you for having me today. I would be delighted to answer your questions.

The CHAIRMAN. Thank you. We will now have 7-minute rounds of questions.

Mr. Pearson, you have testified today that you regret pursuing transactions where a central premise was a planned increase in the prices of the medicines.

Mr. Schiller, in your deposition you said that you wished you had opposed the decision to hike the prices so quickly and all at once. You have stated that you thought the price hike was too aggressive and that Valeant made mistakes.

Mr. Ackman, in your written testimony, you called the criticism of Valeant's pricing appropriate and worthy of inquiry, and stated your commitment to ensuring that this approach is never repeated.

Mr. Pearson and Mr. Ackman, in light of your regret that you have expressed, what specific actions are you taking? Are you going to lower the excessive prices of these four drugs and others that you have acquired where the price has been hiked so that they become more affordable? Mr. Pearson, I will start with you.

Mr. PEARSON. Thank you for the question. Yes, we have been too aggressive on price increases, and that is why we took the step of offering the discounts on Isuprel and Nitropress. We have not raised prices at all this year in terms of the neurology and other business that we have where these products exist. Also, our most important divisions, which are our dermatology and Bausch & Lomb, we have actually reduced drug—we are reducing drug prices through Walgreens. These are consumer products, so people pick those up at retailers.

We do have a fair amount of investments that we have made commitments to: manufacturing jobs in Rochester where we are investing over $500 million of capital, and along with it a whole bunch of jobs that we are creating in St. Louis. We have expansions in Greenville, South Carolina, so we have made commitments to people, capital. We have $400 million we are spending on R&D. We have important psoriasis products, so we have to make the tradeoffs and the balance between investments in R&D and manufacturing, which are not making money today, as we consider further price decreases, but——

The CHAIRMAN. I am talking about the four drugs that we have particularly focused on today. Is there any plan to reduce the prices of those drugs?

Mr. PEARSON. Two of the four we have reduced prices through our discount programs. We have not——

The CHAIRMAN. Available to hospitals, are you talking about?

Mr. PEARSON. Yes, ma'am.

The CHAIRMAN. I have got to tell you, we have yet to find any hospital that has received those discounts, so I would appreciate for the record your providing me with a list of hospitals. There is none that I can find in Maine. There are none in Missouri. Johns Hopkins says no. Cleveland Clinic says no. Ascension says no for all of its—so I would ask that we be provided with that.

Mr. PEARSON. We would be happy to. My understanding from our lawyers is the Committee has the contracts, but we will provide them, and we will provide them again.

The CHAIRMAN. Mr. Ackman, you are going to continue on the board. You are a major investor. What specifically would you recommend for policy changes so that we can stop this kind of abusive behavior in the future?

Mr. ACKMAN. Sure. Well, just to be specific, I texted our board chair while I was listening to the hearing and suggested we have a board call tomorrow to discuss the drugs that are the subject of today's hearing, and my recommendation is going to be we reduce the prices of those drugs, and with respect to Isuprel and Nitropress, I think we can make it easy by just giving a 30-percent blanket price reduction, and that way we do not have to individually negotiate deals with hospitals. That would be my recommendation.

The CHAIRMAN. Thank you.

I would like to put up Exhibit 1 because, Mr. Pearson, you mentioned financial information and that you have some units that are not doing so well, and this is information that was provided by Valeant's new CFO, and I believe we have passed out the exhibit to you.

If you look at Row H, it shows Valeant's net profits on Cuprimine, exclusive of tax and other interest expenses. The fact is that Valeant made very impressive returns on Cuprimine: $25 million in the fourth quarter of 2015 and $7.5 million in February alone. In comparison, during the same period, Valeant paid very little for the Cuprimine it sold. If you look at Row F, you will see it spent only $180,000 in the fourth quarter of 2015 and $20,000 in the month of February.

It does not appear that the cost of manufacturing went up, and, indeed, when we have checked with the manufacturer, that is not a factor.

Turning again to Exhibit 1, in February, Valeant paid just $40,000 for the Isuprel it sold, and it made more than $17 million in net income on that one drug alone.

How do you justify that pricing?

Mr. PEARSON. Your figures are correct from a gross margin standpoint. Thank you for providing the information.

When we set prices, we look at costs of substitutes, costs of alternatives. We look at the supply demand. I agree that the price increases were too aggressive, but in terms of the analysis done by the company, it is looking to make sure that there are alternatives.

We also invest heavily in patient assistance programs. I was quite upset to hear—I listened to the first panel. I was quite upset to hear that Mrs. Heyman had the experience that she had. I think that—I hope that is an isolated experience. We track and monitor all customer inquiries, and we provided all those documents to your

staff, and I think we have a pretty good track record in terms of the patient assistance program. We are planning to spend over $1 billion of our total revenues of $12 billion on patient assistance this year.

The CHAIRMAN. Well, I can tell you from the Committee's work that your Patient Assistance Program does not have a good track record and is viewed as being very difficult to navigate and as a means of keeping your customers so that they do not go off their medicine so that you can still get the payments primarily from commercial insurers, which dwarf the amount that you are giving in customer assistance.

I would also make the point, before yielding to the Ranking Member, that you are dealing with a captive audience here. These patients do not have alternatives. These hospitals, the gold standard for the conditions treated by Nitropress and Isuprel, the gold standard are those two drugs. The gold standards for Wilson disease are those two drugs. That is just the whole point. That is why they are monopoly drugs. It is not like there are easy substitutions.

Senator McCaskill?

Senator MCCASKILL. Thank you.

According to your SEC filings, Mr. Pearson, beginning in the first quarter of 2013 through the third quarter of 2015, you State in your filings that your revenue—changes in revenue have been driven primarily by price, not by growth. In fact, in only one quarter between 2013 and 2015 did you report that growth was driven by volume, so price increases has, in fact, been the entree for your business, correct?

Mr. PEARSON. Yes, pricing has driven more growth than volume, although that is changing over time.

Senator MCCASKILL. Well, in the first quarter of 2016-—you, Mr. Ackman, own at least 10 percent of this company.

Mr. ACKMAN. A little bit less, 9 percent, but yes.

Senator MCCASKILL. A little bit less. Your first quarter 2016 on IMS and Price Rx data, the average price in the first quarter—keep in mind the yearly inflation is 0.9. According to Wells Fargo securities report issued yesterday based on IMS and Price Rx data, the average price of your top 30 products is up 78 percent over last year. Now, you cannot attribute that to R&D because you do not spend that much on R&D. You spend like 3 percent, right?

Mr. ACKMAN. We spend 8 percent of our pharmaceutical revenue on R&D.

Senator MCCASKILL. Whoa, whoa, whoa. Mr. Schiller, didn't you agree in the hearing in the House that it was actually 3 percent? Do I need to pull that testimony out?

Mr. SCHILLER. My recollection was I said it is 3 percent of total revenue.

Senator MCCASKILL. Right.

Mr. SCHILLER. My recollection is that it is—if you looked at just U.S. pharmaceutical revenue, it would be in the 8 percent—I do not know the precise number, but it would——

Senator MCCASKILL. Three percent of revenue based on the testimony that your CFO gave in the House, so you understand that I think it is misleading to act as if this is a problem with four drugs. This is the business model.

Mr. Ackman, Exhibit 81 is an email you received in January 2015 from a man by the name of Drew Katz, and you said in your email to Mr. Pearson about Mr. Katz that he was a very politically connected and influential person.

Mr. ACKMAN. Yes.

Senator MCCASKILL. You said that he had Wilson's disease.

Mr. ACKMAN. Yes.

Senator MCCASKILL. He had contacted you——

Mr. ACKMAN. Yes.

Senator MCCASKILL [continuing]. about the incredible problem and the fact that death could result if people could not get this drug.

Mr. ACKMAN. Absolutely.

Senator MCCASKILL. Also the incredible increase in price.

Mr. ACKMAN. Yes.

Senator MCCASKILL. You called Mr. Pearson.

Mr. ACKMAN. I sent him an email.

Senator MCCASKILL. Okay, and you said, "We can chat tomorrow"—and Mr. Pearson said, "We can chat tomorrow." We do not have email traffic about your chat, but it is my understanding from you talking to the Committee that he assured you or Mr. Schiller assured you that anybody who needed help could get it.

Mr. ACKMAN. That is correct. It was Mr. Schiller.

Senator MCCASKILL. Now, you know personally this is going on in January, before you put approximately $4 billion in this company. Did you followup to see what they had done about the price of this drug?

Mr. ACKMAN. No. I took him at his word.

Senator MCCASKILL. Did you know, as you had already put over $3 billion in the company, that they did another giant price increase on this drug?

Mr. ACKMAN. I did not.

Senator MCCASKILL. After you were one of the top five investors in the company?

Mr. ACKMAN. That is correct.

Senator MCCASKILL. With the kind of due diligence that you have to do when you are investing $3 billion of your investors' money?

Mr. ACKMAN. I was not aware of it.

Senator MCCASKILL. In July 2015, after you were one of the five biggest shareholders, they increased the price—now, hold on. Do you know what they increased the price to, from what to what?

Mr. ACKMAN. I do not.

Senator MCCASKILL. As you sit there today?

Mr. ACKMAN. I do not know exactly, no.

Senator MCCASKILL. As a member of the board? They increased it from $6,500 in July 2015 to $26,000 and change.

Mr. ACKMAN. Yes, it is horrible. It is wrong.

Senator MCCASKILL. Well, wouldn't you have done due diligence on this as you were deciding to invest more and more—you kept investing.

Mr. ACKMAN. Actually, we did not add more to our investment at that point in time, but——

Senator MCCASKILL. Well, you did in November.

Mr. ACKMAN. I think one of the issues with due diligence in this industry is it is very hard to find out the prices for drugs because a lot of drugs are individually negotiated contracts with payers.

Senator MCCASKILL. Well, but don't you understand that if you have gotten this note from somebody who is suffering from this disease how easy it would have been to followup with the Wilson Center?

Mr. ACKMAN. I regret that we did not do more due diligence on pricing at Valeant, I mean, for sure.

Senator MCCASKILL. Okay. Let us move on to the price increase on Isuprel and Nitropress. When you acquired your stake in Valeant on March 17th, were you aware of the price increases they had taken on those drugs?

Mr. ACKMAN. I was not.

Senator MCCASKILL. If you would turn to Exhibit 45, I wanted to also ask you about Mr. Jordan Rubin. If you were offended by the price model that we are talking about with this company, this is an email from Jordan Rubin about him reaching out and lobbying Congress about the drug pricing debate, and he says he is very sympathetic to your side of the story. This is going to, in fact, Mr. Pearson, this email, but you are copied, Mr. Ackman. Do you see the email I am referring to?

Mr. ACKMAN. Yes, I do.

Senator MCCASKILL. He says he met with the staff of a member of the House Ways and Means Committee. He met with him Friday, and he is very sympathetic to your side of the story. He is very pro-business and wants an adult conversation. "I explained the economic and social logic of your business plan." Could you explain the social logic here?

Mr. ACKMAN. I think I know what he is referring to. It is not about raising the price of Cuprimine. What it is about is I think there is a—I think the conventional wisdom is that drug companies who spend more of their money as a percentage of revenue on R&D, the better, and that there is-—you know, Valeant's model of kind of higher-return R&D spending and then acquiring drugs at a later stage of development, licensing drugs, acquiring other products is somehow not contributing to, you know, the State of drug development, and I share my colleague's view and perhaps the person you spoke to's view that you can create as much value acquiring, you know, small, fast-growing companies that develop drugs than you can by developing them yourselves.

Senator MCCASKILL. Doesn't that require price increases?

Mr. ACKMAN. No.

Senator MCCASKILL. Wait a minute. You are telling me you are going to go buy a company that is selling a drug for Price X——

Mr. ACKMAN. Right.

Senator MCCASKILL [continuing]. and you are going to give them a price for their company and, therefore, that drug.

Mr. ACKMAN. Correct.

Senator MCCASKILL. That is going to be a profit for them.

Mr. ACKMAN. Very much so, yes.

Senator MCCASKILL. Yes, and then you are going to take that drug and charge the same price after you have put your capital and provided them with a profit? Don't you have to raise the price?

Mr. ACKMAN. No, I think——

Senator MCCASKILL. Can you find me one drug that Valeant did not raise the price on?

Mr. ACKMAN. I do not know offhand the price—I do not have the price list.

Senator MCCASKILL. Mr. Pearson, one drug that you did not raise the price on after you acquired it?

Mr. PEARSON. Not in the United States.

Senator MCCASKILL. Mr. Schiller, are you aware of any drug that you bought or acquired that you did not raise the price on?

Mr. SCHILLER. My recollection is when we bought Salix, we did not raise the price on Xifaxan.

Senator MCCASKILL. Okay, and we will check that.

I think the point I am trying to make is it is hard to feel good about the social value of not investing in R&D if we are adding another layer of profit by buying companies and then jacking up prices. That is not social good. That is social bad.

I will save my questions for the next round.

The CHAIRMAN. Senator Tillis.

Senator TILLIS. Thank you, Madam Chair. Gentlemen, thank you for being here.

Mr. Ackman, is my back-of-the-napkin math right that the market cap in August 2015 was about $90 billion and now it is about $12 billion?

Mr. ACKMAN. That is correct.

Senator TILLIS. How many employees does Valeant have in total?

Mr. ACKMAN. 22,000.

Senator TILLIS. How many of those are in divisions outside of the drug division, say the Bausch & Lomb, et cetera?

Mr. ACKMAN. I would not know.

Senator TILLIS. Mr. Pearson?

Mr. PEARSON. Bausch—we do not—in many countries people do more than one thing, but the majority of our employees are probably in the Bausch & Lomb division, in the dermatology division, and in our emerging markets.

Senator TILLIS. It is amazing to me when you think about it. What would you estimate, since the price increase, your profits have been derived, the profits that have been derived from the drugs that we are talking about today, the profit?

Mr. PEARSON. I do not have precise numbers, but I would estimate, you know, 10 to 15 percent.

Senator TILLIS. Give me a number. What is the number on that, dollar-wise, over the period of time that you have gone through the drug price increases? The point I am making is it is probably a lot less than the destruction of your market cap over the last 9 months. Is that fair to say?

Mr. PEARSON. Absolutely.

Senator TILLIS. Is it also fair to say if you do not get this right that you have really very little path to get your market cap back up in the near term?

Mr. PEARSON. I agree. Addressing this issue will help a great deal in terms of——

Senator TILLIS. To Mr. Ackman's point, having a board meeting to discuss getting right on this, something that I am not clear on,

and maybe we could get after the Committee, is when you talk about a 30-percent reduction in the prices, it is hard for me to know whether or not that is a significant number based on where you started, so it would be very helpful if we could get a kind of chart or illustration saying where you are when you bought drug, where you were before this became an issue, and how the discounts actually factor into that. That will just give me numbers that I can kind of normalize rather than get tied up in 1 percent or another here.

Mr. Pearson, in your written testimony, you mention that when you all I guess were working with Marathon and considering Nitropress and Isuprel, something you said was probably a mistake, it sounded like Marathon was kind of leading you down a path or at least presenting you with data that led to the conclusion in your due diligence that you would be raising prices because the generics were on the horizon and there is some trend in the industry to jack up the prices before they actually get the competition, so in doing that, as you are completing your due diligence and you are trying to size up the business case for making the acquisition, did you all go through the modeling on what you thought you could actually—the prices you could raise and use that as a basis for your final decision to acquire the two drugs?

Mr. PEARSON. That was an important input. We hired the same consulting firm that they had used, Marathon had used earlier, a hospital-based consulting firm. Hospital is not a segment that we had participated much in before, and that analysis was one important input.

Senator TILLIS. You had already—and the prices that you ultimately raised, were they roughly what modeled in the acquisition? More or less?

Mr. PEARSON. The prices that we ultimately raised were higher than what were in the model, and that was because we subsequently got information that the generics were coming earlier than we had originally thought.

Senator TILLIS. What time horizon is that?

Mr. PEARSON. That was in the February timeframe.

Senator TILLIS. Mr. Ackman—am I saying that right, or is it "Ache-man"?

Mr. ACKMAN. Ackman.

Senator TILLIS. Mr. Ackman, you and a colleague of yours from your firm joined the board earlier this year. What is going to be different this time next year if you have any influence over it? What support from the board do you think you will have?

Mr. ACKMAN. A lot is going to change. We have a new CEO starting probably Monday. A lot of the board is going to turn over, so we are going to have a new board for the most part. A number of the new directors have a tremendous amount of pharmaceutical industry experience, and pricing will be top of mind.

To your point on the decline in market cap, you know, I think right now companies where price has been a meaningful driver of profits, their market caps have declined very substantially, and that will motivate CEOs not just in this company but throughout the pharmaceutical sector to focus on more socially responsible pricing plans.

Senator TILLIS. Mr. Ackman, as you get with the board, and, Mr. Pearson, again get that information so that we can really get normalized numbers about current price——

Mr. PEARSON. Sure.

Senator TILLIS [continuing]. targeted discount price. It is curious to me, some of the prices where you are probably doing strategic sourcing with Walgreens or whatever, it is interesting that you are discounting—some drugs may or may not be discounted unless Walgreens is using leverage to get better sourcing volumes, but that almost seems like it is creating less currency for you to go back and do what some of us would think are the right thing on the drugs in question, particularly for the rare diseases.

Mr. Ackman, what I would be very interested in, after we get a normalized chart, kind of a schedule of discounts that may be planned for the particular drugs in question, it would be very interesting to see what the current—what the trajectory will be over time to reduce those drug costs—or take a position that you will not for whatever reason, but I think it would be helpful for the drugs in question.

The reason I started my question about the number of employees and things like this, this is a big employer. A lot of people's jobs are on the line, and quite honestly, the leadership made a huge mistake to put some of those jobs at risk. Nothing could be, I think, more positive for the future of Valeant than to get right on these issues because today, because of where we are—and these business practices that only represent a portion of your business make you look more like Turing and less like some of the other companies that you would consider your peers.

Mr. ACKMAN. Totally agree.

Senator TILLIS. We are going to be watching this very closely, and I think if we can particularly get to the medications where—it is very difficult to understand why you would do it. I realize you are in a business. I want you to make a profit. I want you to employ people, but I also want you to get right on this issue, and I look forward to your continued involvement with the Committee, and I thank the Chair for holding this important hearing, and I thank you for being here.

The CHAIRMAN. Senator Kaine has gone. Senator Casey? I am sorry. Senator Donnelly came back. Senator Donnelly.

Senator DONNELLY. Mr. Ackman, you indicated that you are going to recommend a 30-percent price decrease.

Mr. ACKMAN. No, what I said was——

Senator DONNELLY. I do not want to misquote you.

Mr. ACKMAN. What I heard from the presentation from Dr. Fogel is that his hospital was not getting the discounts that it is my understanding Valeant had offered, so rather than make them something you have to apply for, my recommendation to the board is that we just take the discount and everyone get the benefit of the discount.

Senator DONNELLY. Well, let me ask you this: Isuprel was $2,183 for ten 5-milliliter vials. It is now $17,901. That is in about a year and a half time. Why would you not recommend to the board that—you know, over a 30-percent increase for 1 year, I would

think that is a pretty good return rate. Why don't you charge $3,000 for that?

Mr. ACKMAN. Look, it is something we will discuss tomorrow.

Senator DONNELLY. You will discuss dropping the price of Isuprel to $3,000? That is over a 30-percent increase in the original price.

Mr. ACKMAN. We will absolutely discuss it.

Senator DONNELLY. Okay. Nitropress went from $214 to $880 for one 2-milliliter vial. A 30-percent increase, again, a pretty good shot, would be about 300 bucks. Will you talk about that as well at the board?

Mr. ACKMAN. For sure.

Senator DONNELLY. Let me ask you this: You have public and private pension funds that invest in you and put their confidence in you. Do you think that this is the kind of business model they want you to pursue? Obviously, they want to have returns so their investors can retire with dignity. Do you think they want it to be done on this type of basis?

Mr. ACKMAN. Certainly not, but I think it is important—this is—you know, pricing actions here with respect to the drugs we mentioned and this segment of Valeant's business are not all of Valeant's business, and what attracted us to Valeant was not what is called the neuro and other division but, rather, the Bausch & Lomb franchise, the company's branded generics portfolio, their Salix acquisition. I mean, there is a lot of—you know, a lot of good drugs made by this company where the prices are competitive and reasonable. There are a lot of consumer products made by this company where the products are high-quality products and they are priced at sensible prices.

I think, you know, the point made earlier, you know, a relatively small percentage of Valeant's business, 10, 15 percent of the revenues of the company have taken down the company, so that is something we need to fix, and it is going to be a very high priority of our new CEO.

Senator DONNELLY. The other thing I wanted to mention to you is that those pension funds that invest with you, whether they are public funds or private funds, it comes out of the paychecks of individuals who work really, really hard every single week and who are the same ones who have to take this medicine.

Mr. ACKMAN. Sure.

Senator DONNELLY. Mrs. Heyman is in much tougher physical condition because she cannot afford it anymore, so in effect, your actions—or the actions of this company are affecting the very people who provide you with the funds to do the investing.

Mr. ACKMAN. For sure.

Senator DONNELLY. Mr. Schiller, I want to ask you about the manufacturing costs. A ten 5-milliliter vial of Isuprel, $17,901. You are the CFO, and I do not know if you have this information. What is the cost to manufacture ten 5-milliliter vials of Isuprel?

Mr. SCHILLER. Currently, I am not the chief financial officer, so I do not have that data.

Senator DONNELLY. Okay. Do you know what it was when you were there?

Mr. SCHILLER. It would have been very small. The margins would have been somewhere in the 90's. I do not know where, but it would have been—the margins would have been quite high.

Senator DONNELLY. When you say somewhere small, was it less than $1,000 for that $17,000 worth of vials?

Mr. SCHILLER. I would be guessing, but it would be less than—I would guess significantly less than 10 percent of the selling price.

Senator DONNELLY. Okay. Mr. Pearson, can you get us those exact manufacturing costs for Nitropress, Isuprel, Cuprimine, and Syprine?

Mr. PEARSON. Yes, I can.

Senator DONNELLY. This goes to my next question. Dr. Fogel, who is from St. Vincent's in my home State of Indiana, a place we have a great love for, a great affection for, has done amazing things for the people of our State, and they are part of Ascension Health System, the largest Catholic health system in the world, and they did not qualify for your volume-based prescription program. How is that possible?

Mr. PEARSON. They are a great institution, and they certainly qualified. I do not know what happened. It sounds like, when I heard the testimony, that someone in our organization did not get back to them, which is unacceptable, so I will followup tomorrow and——

Senator DONNELLY. Okay, because as we sit here today—and I am not saying this because I am Catholic, but the largest—with a name like Donnelly, of course I am, but the largest Catholic-based health system in the world, as of today, does not qualify for your volume-based prescription program, and I am not mentioning it because of the faith, but it tells you huge organizations still cannot get in.

Mr. PEARSON. Well, I appreciate the opportunity to come here today so that I learned about this. We will followup. I can assure you that many, many of these large systems are getting the discounts, but I will followup specifically with Ascension tomorrow.

Senator DONNELLY. I wanted to ask you, in your deposition you mentioned that on multiple occasions the first question you ask is about patient access. If that is the first question that was asked, how did you come up with this pricing structure?

Mr. PEARSON. Well, the mistake we made or one of the mistakes we made—we obviously made a number of mistakes, but—and I think Senator McCaskill raised the exact right point, that if you make an acquisition of some older products, in a way the only rationale for making that acquisition is to raise prices to earn a return, which you correctly pointed out, so the mistake was making the acquisition in the first place because if generics were going to come in in a year, which we expect they will later this year, that is—so it was as mistake to pursue that type of deployment of capital, but once you made that decision, the consequence was a need to raise the price of the products, and that is why we focused on these patient access programs to make sure patients would not be hurt. That is what we tried to do.

Senator DONNELLY. I will just say this last thing. All of us and all of our families focus on human rights. It is a human right not to be treated this way, to not be where Mrs. Heyman is, in a situa-

tion where she suffers every day now where she did not before because of what has been done with this, so we would encourage better decisions as we move forward.

Thank you.

The CHAIRMAN. Senator Corker.

Senator CORKER. Thank you, Madam Chairman. I have not attended a lot of Aging Committee meetings, and I appreciate the opportunity. I am going to digress a little bit, but I will be very brief.

I have never met Mr. Ackman before, and I appreciate the opportunity to talk with him a little bit. I have been fascinated since I have been here with the role that hedge funds play in trying to shape public policy. Actually, it has been pretty shocking to me to see the lengths that some hedge funds will go to try to shape public policy in a manner that might reap huge benefits.

I was on the way up this week, and catching a flight out of Chattanooga, and I had a bunch of county mayors talking to me, and they said, you know, "Corker, what is this about Congress bailing out Puerto Rico?" I said, "Whoa, whoa." I am not taking a position on the issue itself, but I said, you know, look, there is no taxpayer money planned for Puerto Rico. A bunch of hedge funds have bought Puerto Rican debt in the last year and a half, and they want to make sure that they keep in a priority position and are able to make as much off this as possible. That is what is happening here. There is no discussion that I am aware of of taxpayers being involved in bailing out Puerto Rico.

I knew Mr. Ackman was going to be here, and, again, I appreciate the opportunity to talk with you. I had read some comments you had made about Herbalife, and basically what you had said is you would take your bet against the company to the end of the Earth, and I guess it has been well documented, the case you made to do that, and what you did to try to influence even public officials, which, again, is perfectly legal.

I just wondered if you might share with us some of the investments whereby you have made investments in various companies and then have tried to influence public officials, if you will, to make sure that you had a good outcome.

Mr. ACKMAN. Herbalife is the only one.

Senator CORKER. That is the only one.

Mr. ACKMAN. The only one I can think of, yes.

Senator CORKER. That is interesting. Let me just ask another question then, so you have not been involved at all in trying to shape public opinion regarding Fannie and Freddie? I know you have been meeting with numbers of legislators and——

Mr. ACKMAN. I have not been meeting with members of legislators about Fannie and Freddie. I have certainly attempted to shape public policy by putting out a public presentation, but I have not met with any Members of Congress or the Senate about Fannie or Freddie at all. Herbalife is the only time in our 12-year history that we have lobbied Congress, and what I mean by that, I met with a number of Members of the Congress and the Senate. I think Herbalife is causing enormous harm. I wish you would hold a hearing on it. This is a company that is taking, you know, pretty much the entire savings of mostly Latino members of our society, many of them undocumented, and, therefore, not in a position to defend

themselves, and you know, this is an SEC-registered company. It trades on the New York Stock Exchange. It is causing enormous harm, and you know, fortunately, the FTC has launched a formal investigation; the SEC has launched a formal investigation. You know, the people who have been harmed unfortunately are still waiting for the Government to finish their work. We understand that the FTC is close to——

Senator CORKER. If I could, that is good, and I have got 7 minutes, but I appreciate that, and maybe the Chairman of the Committee would have a Committee meeting on that.

Mr. ACKMAN. I would be happy to come.

Senator CORKER. That would be good.

On November 13, 2015, a Fortune article mentioned that under recap and release of Fannie and Freddie, your company, which I understand invested about $400 million after the Government had taken over these entities—I think this was around 2013—that you had invested about $400 million in these companies—I think it was 388, to be accurate—that over a 5-year period, if you could cause Congress or the administration to—or if they just were recapped and released, that you would make somewhere between $7 and $8 billion off that investment. Is that accurate?

Mr. ACKMAN. I think what we said is, you know, the taxpayers own 80 percent of Fannie and Freddie; 20 percent is held by the public. Our view is that preserving the 30-year prepayable fixed-rate mortgage is critical for the country, critical for the housing market, and that it is not going to continue unless Fannie and Freddie continue to exist.

Senator CORKER. Your investment, which was the question—I know you are getting into a philosophical discussion about the company, but the $400 million you invested, if you could just cause them to go back and do business the way that they were in the beginning, would yield you about $8 billion. Is that correct?

Mr. ACKMAN. I mean, I think if Fannie and Freddie—if the Government did not sweep away all the profits and they were allowed to retain capital and continue in the business that they were formed to do, our investment would appreciate, and the taxpayers would have another $300 or $400 billion that could be used for good purposes.

Senator CORKER. Just again to be specific, your company would make about $8 billion. I mean, these are in your own projections. Is that correct?

Mr. ACKMAN. I hope it happens. I mean, we made the investment hoping to make a profit. I think our interests are aligned with what is good for the country, and I am happy to—I appreciate the opportunity to speak to you about it.

Senator CORKER. I am glad to talk with you, and hopefully we will talk about it another time.

Mr. ACKMAN. Then I will come see you.

Senator CORKER. Yes. I noticed also, though, in your public statements that you made a statement, so you have a company that if it can go back to the status quo—by the way you bought this stock after the sweep, the dividend sweep was put in place, so you knew all the conditions as they exist today, but you invested $400 million hoping some that they would be recapped and released, and so I

was instrumental in passing a piece of legislation called "Jumpstart." Other members voted for it, but I noticed in your statements to the public—and maybe on a conference call—you mentioned that you thought people misunderstood what Jumpstart did. I was wondering if you might explain to me what you mean.

Mr. ACKMAN. Well, look, I am of the view that Fannie and Freddie are here to stay, and that there would be no housing market without Fannie and Freddie, and that we did buy stock after the Government stepped in an expropriated 100 percent of the profits from these two institutions forever, and I believe that in this country the Government cannot take private property without just compensation. I am not looking for compensation. I just want—you know, the Government stepped in and bailed out Fannie and Freddie, like they did with AIG and with Citigroup and other banks, and it was an expensive bailout, but——

Senator CORKER. $188 billion.

Mr. ACKMAN. Fannie and Freddie have returned $260 billion to the taxpayer, and——

Senator CORKER. Not a dime of that would have been earned without taxpayers standing behind them. Let me just say this. Let me explain to you what I think Jumpstart meant. Jumpstart said that these companies were not going to be recapped and released unless Congress said so for the next 2 years. It is my hope to extend that beyond, and that our job here is to ensure that we do not return to the same model of private gains and public losses where taxpayers lost $188 billion. This is a very unusual set-up. I think if you were wearing a different hat you would agree that it is most unusual to have a company like this with taxpayer backing that, when things go well, taxpayers do well; when they do not, private citizens pick up the tab, the public picks up the tab.

What I would like to explain to you is what it meant was that over the next couple of years, Congress is going to try to reform these entities so that that arrangement does not exist anymore. I am committed to that. I think many members up here are committed to that, and what that means, I hope, is that we are not going to just return—I know numbers of hedge funds have made investments in this entity. Numbers of them are betting against Congress' ability to reform these, and I would love to talk to you about this, but I am just saying I think what Jumpstart meant was that Congress plans to reform these entities to change this arrangement so that we do not have a scenario like we have right now where—look, I am all for people making money, but doing so in a system that is not favorable to taxpayers is not a good way to do it.

Mr. ACKMAN. Again, I feel bad about distracting the hearing from the topic at hand, but we share your same goal. We believe that we can—we have a solution to the problem that benefits the taxpayers, does not socialize the risk of the two institutions, and I will come see you, and I appreciate your offering me that opportunity.

Senator CORKER. Very good.

Mr. ACKMAN. Thank you.

The CHAIRMAN. Senator Kaine.

Senator KAINE. Thank you, Madam Chair.

I have a couple of questions for you, Mr. Pearson, and one is going to involve an exhibit that has been earlier admitted into the record that I am having brought to you. It is Exhibit 6.

When I talked to Ms. Heyman, I asked her questions about the letter that she wrote to Valeant and the response that the company sent back to her when she asked about the price increases in Syprine, and this Exhibit 6 is the response letter of the company's, and I just am trying to understand sort of the business model here.

She wanted to know why Syprine had increased, and if you look at the second paragraph of the letter, it basically is two sentences: "While there are many challenges associated with developing treatments for rare conditions such as Wilson's disease, the investments we make to develop and distribute novel medicines are only viable if there is a reasonable return on the company's investment and if our business is sustainable. We have implemented rate increases for Syprine in several stages over the past 6 months in order to bring the total cost of this drug in line with market rates of other orphan drugs."

Two sentences, and I want to look at each of them.

The first statement about the challenges associated with developing treatments for rare conditions such as Wilson's disease, I am correct that Valeant did not develop Syprine, correct?

Mr. PEARSON. That is correct. We purchased it as part of our Aton acquisition in 2010.

Senator KAINE. Okay, and then, in addition, I think in your interrogatories you were asked the question whether Valeant spent any money on R&D on Syprine between 2013 and March 2016, and the company responded no to that question, correct?

Mr. PEARSON. That is correct. Except for fees that you have to pay every year to keep drugs on markets, it would have been no spend.

Senator KAINE. Okay, and there was no change in, you know, the particular medication or the formulation of it during those years?

Mr. PEARSON. That is correct.

Senator KAINE. The first sentence of this letter, the challenges associated with developing treatments and the investments we make to develop novel medicines, that is really completely a red herring with respect to Syprine. You did not develop it, and you were not doing R&D to change it during that time.

Mr. PEARSON. We use the money that we earn on products where we do not have expertise from an R&D standpoint; we funnel that money into R&D and manufacturing in other areas. Unlike most pharmaceutical companies, we do not pay dividends or buy back many shares, so all of our money gets recirculated. It does not get—you know, most pharma companies would give a dividend to shareholders. We take all our money, but we are investing it in ophthalmology, dermatology, GI, where we do have expertise.

Senator KAINE. In this case, the drug that you guys did not develop and you were not doing any R&D on, the dramatic increases in price were all going to fund other company operations either with respect to return on the investors or other materials you were doing?

Mr. PEARSON. Yes, sir.

Senator KAINE. The second sentence here I am interested in as well: "We have implemented rate increases for Syprine in several stages over the past 6 months in order to bring the total cost of this drug in line with market rates of other orphan drugs." I want to understand what that means.

First, how do you describe the term "orphan drug"?

Mr. PEARSON. Well, I think the technical term is diseases whether it is 200,000 patients in the United States or less, but we do have some drugs that treat smaller patient populations that actually—like Cuprimine, which were discovered even before the orphan designation was made, so it would be small—it would be drugs with small patient populations.

Senator KAINE. What does it mean that your pricing strategy and the increases in Syprine were designed in order to bring the total cost of this drug in line with market rates of other orphan drugs? What were the other orphan drugs that were being referenced here?

Mr. PEARSON. I do not know precisely. I did not write this letter or do this—you know, send it, but I do know that we certainly look at orphan drugs in the same category, and there are some alternatives, and I know that one was priced a lot higher than our drugs were.

Senator KAINE. And that a drug for Wilson's?

Mr. PEARSON. Yes, sir. I think it is—I will get you the name. I cannot remember it. It is sold by a company called "Meta" in the United States.

Senator KAINE. We will submit that question for the record, and I would like you to respond to it.

Mr. PEARSON. Yes.

Senator KAINE. As you look at this sentence now, you did not write the letter, but you were involved in the pricing strategies, as you have testified. How is it relevant, and especially with, you know, patients here, how is it relevant what the drug costs are for other drugs in terms of what you charge the patient for this particular drug that you did not develop and you spent no money to advance through R&D?

Mr. PEARSON. A very fair question. When we look at dermatology products, ophthalmology products—I think our dermatology, the average price that we get for dermatology prescriptions is $200-something, and ophthalmology, it is closer to $100. We look at what competitor products are priced at because it is in the end a free market system, and we need to take into account sort of what is the—if you buy a Ford or you buy a Chevy, there is competition.

Senator KAINE. In your thinking about this free market system you are describing, is it a factor of relevance at all that the absence of a drug, a dermatological drug, might cause, you know, a minor concern and the absence of Syprine could lead to liver failure or a liver transplant or even death? Is that a factor?

Mr. PEARSON. It is, and that is why we have invested over $1 billion in patient assistance programs. Again, I was very disappointed to hear about Mrs. Heyman's experience, and we will be following up again. We did offer—I do know we did offer her free medicine for life.

Senator KAINE. After the Financial Times article?

Mr. PEARSON. It was after the Financial Times article, but——

Senator KAINE. Do you understand—you know, we are using phrase "orphan drugs." Do you understand when we talk about this as basically a "patient as hostage" model, do you understand why we have come to look at it that way?

Mr. PEARSON. I certainly have learned more today, and I do understand the description that you are giving now.

Senator KAINE. When did that realization strike you that you were basically making a drug that some people needed to stay alive and that they did not have a lot of other options and that these dramatic price increases might, you know, lead people to have to go into a doctor's office and decide in some instances that they had to give up a medicine that they were relying on to keep them alive? Is that something that you learned today at this hearing?

Mr. PEARSON. No, and that is why we have invested for many years, since I joined the company, heavily in patient assistance programs, so we could followup patient by patient, and we do track every patient that calls and make sure that is run to the ground, I read the reports, and I was disappointed to hear today that there are a number of patients that are not getting the medications at affordable prices, and we will followup on that, but that is why we have invested, you know, over $1 billion this year in patient assistance programs. It is for that very reason.

Senator KAINE. Let me just ask one other question, if I may, Madam Chair. Financial Times, October 8, 2015, "Valeant's business model faces tough questions." You are quoted. "In an interview with the Financial Times on Tuesday, Mr. Pearson conceded that Valeant's business model was not fully understood by all investors but insisted the company had 'nothing to be ashamed of.'"

Would that still be your testimony today?

Mr. PEARSON. No. In my written testimony and in my oral comments, I think we have been too aggressive—too aggressive on pricing. To Mr. Ackman's point, it is not a big segment of our business, but it is still our business, and again, one of my big regrets is we have a lot of employees that are doing great work in the consumer division, in the Bausch & Lomb division, and in the dermatology business where we provide low-cost medications and OTC products, create a lot of jobs, bring a lot of innovation to the market, have a lot of volume growth, and I think what I was referring to is a small segment of the business where we clearly have made some mistakes, and I take responsibility for those mistakes. It is overshadowing all the great work being done in sort of the other 90 percent of the business.

Senator KAINE. Thank you. I do not have any other questions, Madam Chair.

The CHAIRMAN. Thank you.

Senator Casey?

Senator CASEY. Thank you, Madam Chair.

Mr. Pearson, I will start with you. Isn't it true that, despite the price increases that we are talking about today for products such as Syprine, isn't it true that you said in your deposition you emphasized maintaining patient access as Valeant's top priority? Isn't that true?

Mr. PEARSON. It is one of our high priorities, yes.

Senator CASEY. Yet despite that statement, that statement today and that statement in the deposition, and your company's so-called patient assistance program, Valeant Coverage Plus, we have the testimony of Ms. Heyman which I think clearly indicates that—and I am quoting from the bottom of page 1 and the top of page 2 of her statement today, that "My copay for Syprine was under $700 per year until 2013. By 2014, my projected copay exceeded $10,000 per year with my insurance paying over $260,000."

Do you dispute that?

Mr. PEARSON. No, I do not. Mrs. Heyman, as I understand it, is covered by Government insurance, and we are not allowed to give copay assistance to people that are covered by Government insurance, and that is why we offered her the product for free for life, which we are allowed to do.

Senator CASEY. You do not dispute that the copay increased by——

Mr. PEARSON. I totally believe her.

Senator CASEY. Also in your deposition, it is Exhibit 14, page 39, so-called talking points. I do not know if you recall this or if you have it in front of you. You may be able to refer to it there. In the talking points——

Mr. PEARSON. Is this page 39?

Senator CASEY. Page 39.

Mr. PEARSON. Okay, 39. Thank you.

Senator CASEY. Top of the page is "Draft Patient Talking Points." That is the document, and I am going to the fourth bullet, starting with the word "importantly." Do you see that?

Mr. PEARSON. Yes, I do.

Senator CASEY. Okay, and under that fourth bullet that starts with the word "importantly," there are two subparts, and you say in this—the talking points say, "We expect that a majority of the price increase will be absorbed by your health care provider and there will be no significant increase in your copay." That was in your deposition.

Mr. PEARSON. In my deposition I was asked about this document. I made it clear I had never seen this document except for preparing for testimony through counsel. This was a program that apparently was being considered down in the organization. It was never approved. We never implemented this program.

Senator CASEY. You never saw it before your deposition? That was your testimony?

Mr. PEARSON. Except for seeing it from the lawyers a couple days in advance in preparation, I had not seen this document.

Senator CASEY. Okay. Well, someone in the organization was indicating that there would be no significant increase in the copay, and obviously, that was transmitted to patients as a talking point.

Yet in Ms. Heyman's case, out-of-pocket costs went, as I said, from $700 per year to over $10,000, and she was denied any patient assistance multiple times, so I guess here is the basic question, and that is why I set forth a long predicate. It took three denials, one news article, and a whole year for her to receive a response. Is that correct?

Mr. PEARSON. I think that was her testimony, and I have no reason to doubt it.

Senator CASEY. Explain to this Committee why that would take that long. Why would it take all of those events and interventions and, frankly, outrages before she would get a response to that fundamental question?

Mr. PEARSON. Senator, I agree with you it should not have, and that was—obviously, it was poor execution, and clearly, we need to improve the execution on some of these programs.

Senator CASEY. In the remaining time I have, I will turn to Mr. Ackman. Mr. Ackman, you said in your testimony today, and I am quoting from the bottom of page 4, "Valeant has been appropriately criticized for substantially raising the prices of certain off-patent prescription drugs suddenly and without apparent justification. These issues are worthy of inquiry." Then you go on to say you are committed to ensuring they will never be repeated.

Mr. ACKMAN. Yes.

Senator CASEY. Then in the next paragraph you talk about, "Getting drug pricing right is a serious issue . . ."

When we read those words, "worthy of inquiry," "serious issue," it in no way conveys the gravity of this, in my judgment, and I think that is probably the judgment of most objective observers, so you say you are on the board. You say you are trying to get this right. Why should we believe you?

Mr. ACKMAN. I think actions speak louder than words. I would say I joined the board of Valeant on March 21st, and in a month we have made a lot of changes at the company. We have replaced Mr. Pearson with another executive who has got a tremendous track record. We are making a lot of changes to the board of directors. We understand the issue and the problem, and when I talk about getting drug prices right, you know, it may seem that the best thing for society is just to reduce the prices of all drugs, but the reason why in this country we have the most innovative drug companies in the world is that people can make a profit and they are highly incentivized to innovate and come up with new drugs, so I am not in favor of price controls, but I am certainly not in favor of abusive—taking advantage of a short-term monopoly to extract massive price increases. That is totally wrong.

Senator CASEY. Look, my point here is I have got your testimony. It is five pages long. It is single-spaced. There is a lot of information in here, and I am glad we have it, but you made reference in your oral testimony here earlier in reference to one of the questions and one of your responses about social responsibility. Can you point to anything in this testimony you submitted today, this written testimony, that speaks to social responsibility so that this, as your quote is saying, "never happens again" and this is a "serious issue"? Is there anything in here that you intend to do or the board intends to do or the company intends to do to ensure that there is a social responsibility to this improvement plan, or whatever you want to call it, that the company is undertaking?

Mr. ACKMAN. I wrote it, and I read this statement into the record. I raised my hand to say I believe it to be true to the best of my knowledge. I——

Senator CASEY. Is there any reference in there——

Mr. ACKMAN. Yes.

Senator CASEY [continuing]. reference in there to any social responsibility?

Mr. ACKMAN. Yes. I say the following: "I take seriously the responsibilities that come with my role as a new member of Valeant's board, and I am committed to ensuring that Valeant implements best practices with respect to drug pricing and maintaining the company's social contract with the patients and doctors it serves."

Senator CASEY. Okay, and what has the company done to fulfill that commitment that you made in your testimony?

Mr. ACKMAN. We have replaced the CEO—well, the first thing, I wanted to make sure the company did not go bankrupt. Okay? That is the first thing I have been doing in the last 4 weeks. We had to get a waiver from our banks. We are working on getting a 10-K filed, and we expect that will be filed by Friday. Stick with me for 1 second, if I can, please, and we are bringing in a CEO that has got a great track record, frankly, in reducing health care costs. Perrigo is known for bring down health care costs. They are known for making alternative Wal-Mart branded solutions over the counter and otherwise and generics, so I think we have identified—you know, I am not an operating executive of Valeant. I will not be. I will be a member, I will be one of 10 or 11 members of the board, but I think this Committee has done an excellent job elevating the issue of pricing, and it has done a good job taking about $80 billion off the market cap of Valeant, and I think that has not gone unnoticed, not just by Valeant but every other drug company in the country, and I think the impact of that will be that people will be very sensible before they think about jacking up the price of a drug——

Senator CASEY. I understand that.

Mr. ACKMAN [continuing]. to extract a monopoly profit.

Senator CASEY. Replacing the CEO and making these broad categorical statements does not change the fact that you still have no policy to make sure that prices are never increased this way.

Mr. ACKMAN. I also said at the beginning of my——

Senator CASEY. I have not heard anything about any kind of social responsibility or any kind of business ethics, but set that aside for a moment. Just tell us—or I hope the company will prove to us that in very short order—this should not take more than weeks——

Mr. ACKMAN. I agree.

Senator CASEY [continuing]. to put into place a new policy as regards to pricing, not grand promises, not moving around the chairs in the board room, but a real policy that says it shall be the policy of this company to not do the following, and this is the set of rules we are going to live by.

Mr. ACKMAN. You will have that in weeks, and hopefully—if not sooner. Our new CEO——

Senator CASEY. Do you plan to put——

The CHAIRMAN. Senator Casey——

Senator CASEY [continuing]. the leadership of the company through any kind of business ethics?

Mr. ACKMAN. We have a new CEO. He is going to start, I believe, on Monday. He is going to show up at the company tomorrow and start meeting executives, and this is the highest priority for the

company, and as a member of the board, you know—watch. Watch what we can do.

Senator CASEY. You need business——

The CHAIRMAN. Senator Casey——

Senator CASEY [continuing]. ethics and a code of conduct and a very specific policy on pricing.

Mr. ACKMAN. I agree.

The CHAIRMAN. Senator Casey, you are way over your time.

Senator CASEY. Thank you, Madam Chair.

The CHAIRMAN. Even though you are pursuing an excellent line of questioning, I want to make sure our other members get an opportunity.

Senator MCCASKILL. It is rare that we see Bob that worked up.

The CHAIRMAN. Senator Blumenthal.

Senator BLUMENTHAL. Thank you very, very much, Madam Chairwoman, and I agree that Senator Casey was pursuing an excellent line of questioning. I want to continue it because I think that codes of ethics and standards of conduct are a good line of improvement to pursue, and I welcome your determination to do it, and I accept your commitment, Mr. Ackman, that you will, in fact, implement changes in the way that your company does business.

For me, the real question is: How do we prevent other companies from going haywire, from the profit motive, from going out of control, and, frankly, corporate greed from eclipsing social responsibility? That is perhaps a very stark way of describing what happened here, and I say it because all of you have acknowledged that what happened here should not have happened. Am I correct?

Mr. ACKMAN. Yes, I think I have an answer to the question.

Senator BLUMENTHAL. You have answered that question?

Mr. ACKMAN. No, just to—you know, I think this has been a very effective Committee in a relatively short period of time, and I think, you know, the point I made before, while raising the prices of these drugs increased the profits of Valeant, it destroyed enormous shareholder value, and I think that is—you know, if you look in the stock market today, drug companies that have done similar things—and, by the way, Valeant is an example. Unfortunately, there are many others, and there are companies, frankly, that have more of their business model is about raising price. The stock prices of those companies have declined dramatically, and you know, that incentive will incentivize the managements of those companies, who are largely compensated based on how their stock prices do, to adopt more ethical pricing practices, so I think it is—I think you have, you know, begun to accomplish that mission.

Senator BLUMENTHAL. It destroyed shareholder value. It also gravely damaged individual lives, as we have heard today, and it impacted health care for countless other patients, and this phenomenon of skyrocketing pharmaceutical drug prices is impacting the quality of health care in our country, and just to give you one example, these skyrocketing prices increases for Isuprel and Nitropress have forced Yale New Haven Hospital's pharmacy department to consider cutting other drug expenditures to make up for the cost increases since these two drugs are the gold standards for treatment, and there are no really acceptable or at least preferable alternatives, and for 2016, Yale New Haven Hospital esti-

mates it will spend nearly $2.5 million on these two drugs, which could be spent on health care for other individuals, so the ripple effect is widespread.

My question really is: What should the Government agencies have done here? How did they fail? The idea that the pharmaceutical drug industry is a free market clearly is a fiction. There are regulatory agencies that, in fact, impose regulations here, and rules and standards, that should have prevented this kind of egregious or extreme misconduct, and if it is not within their purview legally right now, it should be, and so that for me is the challenge for this Committee, to make sure there are oversight mechanisms and standards and rules that would preventively act against what happened here.

I want to ask about two drugs that I do not think you have—the two other drugs that I do not think you have mentioned would be reduced in price, Cuprimine and Syprine. Do you intend to reduce those prices as well? I know you committed that you would have a board meeting tomorrow and you would recommend to the board that Nitropress and Isuprel be reduced in price. Will you commit to the other two?

Mr. ACKMAN. That will be my recommendation.

Senator BLUMENTHAL. Mr. Pearson, maybe from your perspective, what could or should have been done by Government agencies to prevent, in effect, your very excessive price increases here?

Mr. PEARSON. I do not have any great suggestions for Government agencies. I do believe the markets do work. I do believe that the dramatic decline in the value of Valeant will make it—people are going to give a lot of thought to any kind of significant price increases. The asset values of companies that have older drugs will go down, and it will not cost as much to buy them and, therefore, there will be less—so I do think the market forces will work and the capital markets will—and I agree that this Committee has played a huge role in that.

Senator BLUMENTHAL. Mr. Ackman, do you have any suggestions?

Mr. ACKMAN. Yes. I think part of the problem is—and, again, I am not blaming any individuals, but the approval process for generic drugs is too prolonged a process and it is too expensive, and the impact of that is when you have got relatively small drugs, where there is not enough revenues to justify a generic alternative, particularly in light of the duration of the FDA process and the expense, you do not see the competition come in and bring down the price, if we could streamline the process.

I think the other impact is there has been a lot of consolidation in the generics business, and I think the consolidation is driven by the same factors. You know, if it is incredibly expensive to get through the FDA to get generics approved, it forces companies to consolidate to get scale so that they can be competitive. I think if we could bring down the time and the cost, and if we could—you know, look, if I was not doing what I am doing now, I think this is a very good time to launch a generic company because of the consolidation in the sector, and I do think there is an opportunity, but you need a lot of capital to start a business to compete against the

big generic companies, but I think that would create the market competitive forces to address the problem.

Senator BLUMENTHAL. Well, I would just suggest monopolistic or predatory pricing taking advantage of a monopoly is against the law, and maybe more active antitrust enforcement in this area would be appropriate.

Mr. ACKMAN. Yes.

Senator BLUMENTHAL. Thank you, Madam Chairwoman.

The CHAIRMAN. Thank you.

Senator Warren?

Senator WARREN. Thank you, Madam Chair, and thank you for holding this hearing.

Mr. Pearson, I understand you have talked a lot today about the patient assistance programs that Valeant instituted to help patients cover the cost of their drugs after the company jacked up the prices. Now, we can debate how well those programs work, but I think the discussion raises an even more important question about patient assistance programs and the copay coupons that are offered, not just here but across the pharmaceutical industry, and I would just like to dig into this a little bit.

For commercially insured patients, those with insurance that does not come from the Government, or patients without drug coverage, your primary form of patient assistance is to reduce what patients pay out of pocket. Is that right?

Mr. PEARSON. That is correct.

Senator WARREN. Good, so patients do not pay the portion of the insurance bill that would ordinarily come to them. Is that right?

Mr. PEARSON. That is correct.

Senator WARREN. Okay, but copays and coinsurance are usually either a set fee, like $25, or a set percentage of the drug price, like 10 percent or 20 percent of the total cost. Is that right?

Mr. PEARSON. That is correct.

Senator WARREN. Okay, so if the copay is covered by the company through a patient assistance program, who pays the remaining cost of the product?

Mr. PEARSON. For commercially covered patients, it falls into two categories: one, if we have an agreement with an insurance company, where we are offering big discounts to them as well, they would pick up the rest.

Senator WARREN. If you happen to have an agreement like that with an insurance company.

Mr. PEARSON. Correct.

Senator WARREN. If you do not?

Mr. PEARSON. If they do not, then the company in that case would pick up——

Senator WARREN. Okay, so the insurance company pays for——

Mr. PEARSON. No, no, no. If we do not have an agreement with the company, the odds are they do not cover the drug, and then we would——

Senator WARREN. Wait a minute. Are you telling me that—because I want to understand the math in how this works. A drug used to cost $1,000, and you doubled the price of the drug to $2,000, and let us just say the individual's copay on that is now $200. You give the individual a waiver so that the individual, the

patient, is not paying the $200. Are you telling me the insurance company is not paying $1,800?

Mr. PEARSON. I am saying there are two cases. There is a case of an insurance company that covers the drug. In most cases, we are also paying them a discount, and they——

Senator WARREN. They are going to pay $1,800.

Mr. PEARSON. They will pay the rest.

Senator WARREN. As long as it is a covered drug, they are going to pay the $1,800.

Mr. PEARSON. Usually less than that, in our case, since we would be giving them discounts, but, yes, they would pay the difference.

Senator WARREN. They are going to pay the difference, so when you——

Mr. PEARSON. There are others—there are insurance companies that are not covering that drug, of which we have many, in which case if you offer that program, then the company ends up paying.

Senator WARREN. Well, so because what is interesting to me about this is it means, if I am following the math right on this, you double the price even if you manage to give a waiver to the customer, you are still making a lot more money on this, and part of the way I figured this out is there is a Bloomberg report out that says that the pharmaceutical industry spent about $7 billion on copay assistance in 2015, and that was up from $1 billion in 2010. That all sounds pretty good until you get to the rest of the math.

According to multiple analyses, these programs actually benefit drug companies when alternatives may be available and shifting the costs of expensive drugs to consumers and to the insurance companies, so we all pay higher premiums in order to cover if the insurance company is still paying for it, and the drug companies are still picking up the money and putting it in their pockets.

Here is the question I want to ask you: What is the return to Valeant on the money that you are currently putting into the patient assistance program? What is your return on investment on that?

Mr. PEARSON. I do not know. In fact, for patient assistance programs, we do not look at it as an investment with a return.

Senator WARREN. Do not tell me you do not look at it as an investment, because if it costs you money to double the price of a drug and then offer a patient assistance program, you would not be doing it. You are not in this business—I think we have heard multiple times today you are not in this business to lose money, so are you telling me you have never done the analysis of how it is that by offering patient assistance you keep the patient and the doctor on a much more expensive drug, they have no reason to move away from that drug, and you are able to recoup—instead of in my example, the original $1,000, you are able to recoup $1,800, or whatever arrangement you have with the insurance company.

The point I am trying to get to is this is obviously a profitable undertaking for your business, and I just want to know what your return on investment is on that.

Mr. PEARSON. Senator, I have never seen a return on investment on overall patient assistance programs, and——

Senator WARREN. Well, you know, there have been ROI analyses by independent groups that suggest that the return is somewhere

between 4:1 and 6:1; that is, for every dollar invested in patient assistance, you are making more money because people stay on the more expensive drugs, and you just recoup it from the insurance company, and then everyone else pays for it. You have not done that analysis?

Mr. PEARSON. I have not done that analysis?

Senator WARREN. Well, let me ask you a question in a different direction then. Why don't you use these copay reduction programs for Federal Government insurance programs like Medicare Part D or Medicaid?

Mr. PEARSON. My understanding is we are not allowed to.

Senator WARREN. Yes, because it is illegal, and that is exactly the problem here. These programs are illegal because Medicare and Medicaid understand that the programs are scams to hide the true cost of the products from the consumers and drive up the cost for all of the taxpayers.

Right now, patient assistance programs and copay programs are the only available lifeline for some patients, but they are not a real solution. We cannot simply stand by and pretend that shuffling around the high cost of these products is enough. Congress should be doing more to address these high drug prices, and we need to be doing it now.

Thank you, Madam Chair.

The CHAIRMAN. Thank you very much, Senator Warren.

We are going to do one final round of questions, 7 minutes each.

Senator MCCASKILL. I will try.

The CHAIRMAN. I know.

Senator MCCASKILL. She is worried because she sees all——

The CHAIRMAN. Mr. Pearson, we have heard a lot of talk today about business ethics, and I went on Valeant's website because I was curious to see whether there was any statement there, and the current mission statement of Valeant states that the following values are essentially to realizing the company's mission, and first up is a section entitled "Ethics." I am going to read what the statement says on your website: "Our most important objective is to serve our stakeholders, including the patients and consumers who use our products and the physicians who prescribe or recommend them."

How was jacking up the price of Cuprimine by 6,000 percent, Syprine by 3,200 percent, Isuprel by 720 percent, and Nitropress by 310 percent in any way consistent with the values that are expressed in your mission statement where you say it is your most important objective is to serve patients like Mrs. Heyman?

Mr. PEARSON. I wish I could invite you or I wish you would be able to spend a week with me in terms of what I do. I spend most of my time with physicians hearing about the unmet medical needs they have and the difficulty they have prescribing the drugs that they think are best for patients. I spend a huge amount of time with employees. When Howard was my colleague, we spent time going around the world talking about ethics, talking about the patients, talking about—so that is how we spend our time.

I agree that the price increases were too aggressive. I regret that we took those price increases, but if you spent time with people—if you spent time with me or Howard or other people at our com-

pany, I think you would see most of our time is spent exactly on that first mission.

The CHAIRMAN. I am sure that you have many, many dedicated, hardworking employees, but it just seems to me that the pricing of these life-saving drugs is just so egregious that it is not consistent with your own ethical standards as put out in your mission statement, where you say that your most important objective is to serve patients, consumers, and physicians.

Mr. PEARSON. Well, most of our prices of most of our products—I was mentioning dermatology, somewhere in the $200 range a month; ophthalmology, $100 range. We were in Egypt where I think their average price is 80 cents, so Valeant is—again, these price increases which you have identified correctly, they have created a halo over our company where most of our activities and most of our employees, the 22,000 employees—and I think it is over 7,000 or 8,000 in the United States—come to work every day worried about developing safe and effective products for the patients and the consumers.

The CHAIRMAN. I want to better understand why your company felt it was necessary to take such substantial price increases on Isuprel and Nitropress. Valeant built a model-—and I have seen the model—to project whether the acquisition would meet certain metrics of profitability, and then that model is used as a major tool in determining whether or not to complete the transaction, in this case to buy the two drugs.

Mr. Schiller, it is my understanding that the model found that the transaction would be viable financially for Valeant at a 60-percent increase. That is what was reflected in the deal model. Is that correct?

Mr. SCHILLER. I do not recall the specifics in the matrix that I was shown in my deposition, but it was certainly lower than the ultimate price increase that was taken.

The CHAIRMAN. Well, that is according to the deposition from Mr. Andrew Davis, and would you have any reason to doubt his sworn testimony?

Mr. SCHILLER. I would not.

The CHAIRMAN. Valeant could have been profitable with acquiring these two drugs and raising the price by 60 percent. That is still a substantial price increase, but it is far different from the price increase that ultimately was taken.

Could you explain why the price was so much higher than the 60 percent that was recommended in the model? Yes, Mr. Schiller.

Mr. SCHILLER. There was a meeting that a number of us attended—Mr. Pearson, myself, Andrew Davis you mentioned in the business unit. They reviewed the findings of the consulting firm. They made a recommendation which was lower than that price, and Mr. Pearson made a decision to go with the higher price increase.

The CHAIRMAN. Mr. Ackman, I want to turn to your suggestion that you are going to make to the board that there be a 30-percent reduction in the price of the drugs we have been discussing, because I want to put that in context now that we have had the opportunity to do the math.

The fact is, at least by my math, a 30-percent reduction in Cuprimine's price would still leave Valeant with about a 4,000-percent increase compared to when the company bought the product, and just to give you an idea here, the 2010 rate was $445 per 100 pills, and patients with Wilson disease would go through about 100 pills in a month, so that is why I am using it as the metric—445. The price now is $26,188. If you reduce that by 30 percent, it is only down to $18,331. You can probably do that in your head.

Mr. ACKMAN. Actually, let me be clear. That was not my testimony. What I said was we have a board meeting tomorrow to talk about pricing of these products generally. The point I made about the 30 percent, what I heard from the panel was that the 30 percent that had been offered to certain hospitals clearly was not getting through if the hospital systems were not seeing that price benefit, so I said why don't we just—instead of individually negotiating these discounts, why not just make the 30-percent price decrease on Nitropress and Isuprel across the board? That was my suggestion, but here is what I think we should do. Tomorrow we are going to talk about pricing generally. We have a new CEO starting on Monday. You can expect from us within weeks, and hopefully sooner, a response to where we are going to price these drugs, and it will be meaningfully lower than where they are priced now.

Again, I am one member of the board, but——

The CHAIRMAN. Right.

Mr. ACKMAN [continuing]. my expectation is the board will—I am sure the board is watching the hearing, and I think the board will support me, and I think this is the right thing to do.

The CHAIRMAN. Even if I use Nitropress and Isuprel as the example instead of the two Wilson disease drugs, a 30-percent decrease——

Mr. ACKMAN. I totally get it.

The CHAIRMAN. Okay.

Mr. ACKMAN. We are going to come up with an appropriate price based on an appropriate rationale. Thank you.

The CHAIRMAN. Senator McCaskill.

Senator MCCASKILL. Mr. Ackman, first I want to give you a chance to correct the record. I think you said to Senator Corker that you had never tried to influence anything on Capitol Hill other than issues surrounding Herbalife?

Mr. ACKMAN. Lobbying Capitol Hill. I do not have a recollection of doing it for anything other than Herbalife.

Senator MCCASKILL. Well, your company does, though.

Mr. ACKMAN. Not that I am aware of.

Senator MCCASKILL. Well, in Exhibit No. 45, this is a note from Jordan Rubin that he sent to a staffer in the House Ways and Means Committee, and he says the following: "Thank you for taking time in a busy day to talk about drug pricing. My firm is the second largest shareholder of Valeant. It is clear they have not done a good job telling their story on the Hill. I think they would be surprised to learn that you are open-minded to appreciating their side of argument."

I got to tell you, Mr. Ackman, if it walks like a duck and talks like a duck, it is lobbying.

Mr. ACKMAN. Sure. I think——

Senator MCCASKILL. That is lobbying, and this is a member of your firm.

Mr. ACKMAN. I think what I am referring to—he was taken to Washington—there is a Wall Street—or a Washington research firm—I think it might be called "Washington Research"—that organized a trip for a bunch of investors to come meet with and hear from Members of Congress on the issue of drug pricing. He attended that meeting. I did not think of this as a lobbying trip.

In the case of Herbalife, we have hired lobbyists——

Senator MCCASKILL. Hired people.

Mr. ACKMAN. Yes, exactly.

Senator MCCASKILL. Okay. Well, that is lobbying, just——

Mr. ACKMAN. No, no, I would say for sure his statement here is lobbying.

Senator MCCASKILL. Okay.

Mr. ACKMAN. This was—he had one meeting with a group of other people in Washington, and I do not think of that as what I described on Herbalife.

Senator MCCASKILL. Okay. I just wanted to make sure that clearly if you are—what did you say, second? Second largest shareholder in Valeant and you want to talk about drug pricing in Congress, lobbying.

You stated and Mr. Pearson stated that it was really only—these price increases were only so really large in neuro and other in terms of categories?

Mr. ACKMAN. That is where the majority of our higher pricing took place.

Senator MCCASKILL. You know the model is present in every division. We have got—in the diabetes division, we have got a drug up 800 percent. Carac Cream in the derm segment is up 403 percent. Targretin, a cancer drug, is up 633 percent, so I think, Mr. Pearson, honestly, to give the impression that these were isolated incredibly large price increases is just misleading. Wouldn't you agree with that, Mr. Ackman?

Mr. ACKMAN. I do not know the specifics on these other drugs, and, I mean, I would really defer to Mike on this issue.

Senator MCCASKILL. Well——

Mr. PEARSON. I was not trying to be misleading. In the cases of the examples you just gave, those are drugs that have recently gone generic, and when drugs go generic, it is standard in the industry—maybe it should not be, but it is—that price increases are taken because there are generic alternatives, and I think all the drugs you just mentioned, if I have it correct, all have generic—you know, low-cost generics are available, and low-cost generics have the majority of the share.

Senator MCCASKILL. I have got a list of 20 drugs that you gave the House that have gone up more than 200 percent in just a couple of years, and let us talk about the drug you mentioned, Mr. Schiller. When I asked is there any drug that you have not raised the price after you have acquired it, the drug you mentioned, you raised the price of it 9 percent just in the last quarter.

Mr. SCHILLER. It was my—I thought you asked the question after acquisition. That was, I believe, 9 months or so after acquisition, so I stand corrected.

Senator MCCASKILL. Well, you know, in some of the documents you gave us, you did not include the two cardiac drugs because you said, well, you increased it the day you received it. This is semantics to people who are struggling to figure out why their health insurance premiums are Nation stabilizing and why hospitals are charging more and more. This notion—I remember at the hearing when I first brought this up—and keep in mind, this question was first asked about pricing in Congress last summer when I asked the question of you, Mr. Schiller, and you were quick to point out, well, these were hospitals that were being charged this, as if we are not paying for it. Health care is the largest part of our Government debt and continues as far as the eye can see. This is a big deal to our country, and I do not think, you know, that you guys understand that you cannot do this because you can get away it. It is going to stop one way or the other.

You know, I love free markets, but to call this a free market, Mr. Pearson, you are identifying drugs where there was not a free market, where there was a monopoly. Look at Wilson's disease. You took both of them—not one but both. All that is left is the drug that Ms. Heyman is stuck with now.

After all the press, Mr. Ackman, after all the subpoenas, after all the controversy around Philidor, which I have not gotten to yet, by my count—I know you talk about Herbalife, but we have got subpoenas from the Justice Department; we have got an SEC investigation; we have got an FTC investigation. We have got allegations of fraud right out there from Philidor, and all of the information about price increases is a problem. Sixteen of your drugs, their prices were raised in the last 3 months, in January, February, and March.

I mean, how can you guys say—how can you stand here now and apologize—which I think it is great. I am a little cynical. It feels like there was as public relations firm involved somewhere because you sat for a deposition for 9 hours and never used the words "apology" or "regret." Taking you at your face value that you do feel badly, how do you justify—and almost every single one of those drugs had huge price increases last year, and you continued the model to increase them again in the first quarter of 2016.

Mr. PEARSON. is that a question——

Senator MCCASKILL. Kind of.

Mr. PEARSON [continuing]. for me?

Senator MCCASKILL. I want to give you a chance to respond.

Mr. PEARSON. Sure. Well, honestly I was in the hospital during that period of time.

Senator MCCASKILL. I realize that. This is probably better directed toward Mr. Schiller, and we are glad you are feeling better. I have had health struggles too. I know you were very ill, and we are glad you are feeling better.

Mr. PEARSON. We have not taken any other price increases ever since this Committee started its work that I am aware of. We have reduced prices in dermatology and ophthalmology. We have reduced the—so we have taken seriously, you know, the requests and the inquiries from this Committee, and we have dramatically taken a much, much more conservative approach to pricing, and I think

that we are the lowest in the industry now over that time period in terms of pricing, so we certainly have listened.

Senator MCCASKILL. Well, we are in trouble if you are-—over the last year, with everything that has gone on in the company, if you are 78 percent over last year in the top 30 selling drugs, if you are an industry leader in this area, we are going to have to have a lot more hearings with a lot more drug companies.

Mr. PEARSON. Well, ma'am, I will have to—I read that report this morning. I did not read it last night. We have not published our first quarter results yet. IMS only tracks certain—it tracks drugs. It does not track our other products. Many of our other products are not drugs, so, again, I will have to take a look at that report, but I hope—I suspect there are some errors in that report.

Senator MCCASKILL. Well, if there are errors in the report by Wells Fargo, you certainly have a chance to correct the record.

Finally, although I have got a lot more, but I am going to stop. Going back, Mr. Ackman, you seem very sincere today that you want to change things at this company, but you were very involved in this company, and you have been for a long time.

Mr. ACKMAN. We were very involved, not as a Valeant shareholder but as a partner with Valeant, in attempting to acquire another pharmaceutical company.

Senator MCCASKILL. You were very involved after you started—when you did your SEC filing in March, you were sending emails back and forth in July giving them PR advice, approving press releases.

Mr. ACKMAN. No. Actually, really beginning in the fall.

Senator MCCASKILL. Okay.

Mr. ACKMAN. As I mentioned in my testimony, we did get—we were very concerned about what was going on and, frankly, how the company was handling and responding to issues that were raised in the media or not responding to issues that were raised in the media, and I was urging the company to be more transparent.

Senator MCCASKILL. Well, you were defending the company to Charlie Munger and to Warren Buffett right after you acquired your bigger share——

Mr. ACKMAN. No, no.

Senator MCCASKILL. Yes.

Mr. ACKMAN. To be clear——

Senator MCCASKILL. In April 2015, you were defending the company to both of them.

Mr. ACKMAN. Well, Charlie Munger said Valeant was immoral, and I made the point——

Senator MCCASKILL. Well, he technically said it "is like ITT and Harold Geneen have come back to life, only the guy is worse this time." That is what he technically said.

Mr. ACKMAN. Okay.

Senator MCCASKILL. I am not aware——

Mr. ACKMAN. By the way, I am a very vocal—let us put it this way: I am not a passive investor generally. For me——

Senator MCCASKILL. Great. That is what I wanted you to say.

Mr. ACKMAN. Okay, so my point here is Valeant we viewed as a largely passive investment. We did not think the company was bro-

ken. Most of the companies we invest in-—frankly, Valeant today is a much more traditional Pershing Square investment. The stock has collapsed, the shareholders have lost confidence. We come in. We join the board, make changes in management. We make changes to strategy. We fix the business. That is what we do for a living. We made the mistake of making a passive investment in Valeant. You know, we developed confidence in the team and in the strategy. We clearly did not focus enough on this pricing issue. It was a small part of the business when we took a look at the company.

Senator MCCASKILL. Well, it has been their business model from day one, and it is very hard for somebody with your sophistication on Wall Street and your track record on Wall Street—you understand it is a little hard for me to swallow that you were not aware that their model was primarily one of price increases. Let me just finish up, because we could go on and on.

Mr. ACKMAN. Sure.

Senator MCCASKILL. In July, not in the fall——

Mr. ACKMAN. Right.

Senator MCCASKILL [continuing]. after the quarterly earnings call——

Mr. ACKMAN. Yes.

Senator MCCASKILL [continuing]. you sent an email—this is Exhibit No. 59. You sent an email to the CEO, and you were giving him your advice on how the call had gone. You said, you know, "Great quarter, great call. I cannot think of a business over the course of my career that has delivered such a strong operating performance and participated in such a large market and lots of"—you congratulate him on transparency, which seems ironic right now.

Mr. ACKMAN. Yes, sure.

Senator MCCASKILL. Here is the only comment you had on the call, and I will just leave the hearing with this: "My only comment on the call is you sounded a little defensive on the price increase question." Shouldn't he have been defensive, Mr. Ackman?

Mr. ACKMAN. Well, certainly, if—the question was not about Isuprel and Nitropress and Cuprimine, and I have to go back and read the conference call transcript to see what he was being defensive about, but you know, clearly there were things I did not understand about the business, and this was a failure of due diligence on my part for sure.

Senator MCCASKILL. I thank all of you for being here today, and we are glad, Mr. Pearson, you are feeling better.

Mr. PEARSON. Thank you.

Mr. ACKMAN. Thank you very much.

The CHAIRMAN. Thank you, Senator McCaskill.

In closing this hearing, I want to begin by thanking our staff, which has worked very long hours and gone through very complex documents and has worked very hard on this investigation.

I also want to note a point that has troubled me which might help to explain why Valeant pursued this strategy.

Since last fall, Valeant has been saying that the business unit that houses all four of these drugs is "not core to its business or strategy" and is "getting smaller and smaller as a share of net revenue."

The data that we have looked at demonstrates that the net revenues from the four drugs we have been examining is rising, not falling, and, indeed, their contribution to Valeant's net income rose to a significant 23.3 percent in the month of February. These price spikes, thus, appear to be very much the core of the company's business strategy, and that is what is troubling to me.

The second point that I want to make is I believe this does represent a market failure, and it represents a failure of the processes that we have in the Federal Government at the FDA to try to incentivize lower-priced generics to come to market to compete with monopoly drugs, and that is why the Ranking Member and I have collaborated on legislation to change this, but this is not a free market in any sense of the word. The Government is a major payer at both the Federal and the State level. Pharmaceutical companies receive protection under our patent laws for 10 to 17 years so that they have exclusive rights to reward them for developing new drugs.

It is, thus, troubling when we see companies—and Valeant may be the largest of those that we have reviewed, but it is not the only one—exploiting the system, locating monopoly drugs that are the gold standard for treatment of very serious conditions, and then exploiting the system to raise the cost of these drugs to unconscionable levels, despite the fact that these companies have not invested one dime in developing these drugs, which in every case that we looked at, the drugs are decades old. Nor have manufacturing costs increased. Nor has there been a change in the formulation of the drug that would cause there to be a price increase.

That is all very, very troubling, and this kind of price manipulation and abusive pricing has real consequences. It has consequences for patients like Mrs. Heyman who cannot take the drug of her choice that worked the best for her, that she would switch back to in a minute if the price were not so high. It has consequences for doctors who are treating individuals who need these drugs and, as one of our witnesses explained today, has had to hire two new employees to do nothing but help navigate the terrain to help patients secure these drugs.

It has consequences for our hospitals at a time when they are trying to lower health care costs, and they cannot control the costs of these drugs that they desperately need to treat their patients, and that is why this issue concerns us so much, that is why we have begun this investigation, and that is why we are determined to come up with solutions, legislative recommendations, policy changes, to solve this problem, and I know this has not been a pleasant experience for this panel today, but I hope that you will take your expressions of regret for what has been done to the pricing of these four drugs and the harm that it has caused and give us the benefit of your experience to help us prevent this from happening again.

Again, I do want to thank all of our witnesses who are here today. We are determined to come up with solutions. This is not just an investigation to expose the problem. It is an investigation to help us get to solutions.

Senator MCCASKILL. I just wanted to put into the record the Wells Fargo report and PowerPoint presentation on Valeant that I referred to through the testimony.

The CHAIRMAN. Thank you. It will be put into the record.

The CHAIRMAN. I would note that Committee members have until Friday, May 6th, to submit questions to the record, so you may be receiving some additional questions at that time.

At this point this hearing is adjourned.

[Whereupon, at 6:30 p.m., the Committee was adjourned.]

APPENDIX

Prepared Witness Statements

Testimony Submitted by Berna Heyman to the
U.S. Senate Special Committee on Aging
Sudden Price Spikes in Decades-Old Prescription Drugs
for the Hearing on April 27, 2016

Good afternoon and thank you Chairwoman Collins, Ranking Member McCaskill, and distinguished members of the Committee for holding this hearing. My name is Berna Heyman, and I am here today to share my personal experience as a patient with Wilson Disease who has been confronted with sudden and dramatic increases in drug pricing.

Having WD is like being stuck in a tunnel. This genetic disease is bad enough with its many uncertainties, risks of organ or cognitive failure. But the exit to the tunnel is barricaded because of the obscene drug cost. The cost increased by a factor of more than twenty over the past five years. The drug is essential. People can die without it. The drug company deserves the right to make a profit. But it is unconscionable that one company, Valeant, can hold WD patients hostage.

WD is treatable. With proper medication, progress of the disease can be halted and a patient can live a normal life. Treatment is aimed at removing excess copper and preventing its re-accumulation. Treatment for WD is lifelong.

I was undiagnosed for 60 years, making me one of the older individuals to survive that long without medical intervention. I was shocked when a radiologist informed me I had cirrhosis of the liver. A DNA test confirmed I had WD and I immediately began taking Syprine.

I was a librarian at the College of William and Mary in Virginia for 34 years, with good health and drug insurance. Upon retirement, I was insured through Medicare, including Part D, along with supplementary insurance.

Syprine has been around for more than 30 years. It is an old drug. As I understand it, Valeant did not spend a cent on research and development for this drug. Valeant purchased the drug in 2010 and began increasing prices. My co-

pay for Syprine was under $700 per year until 2013. By 2014, my projected co-pay exceeded $10,000 per year with my insurance paying over $260,000. That is untenable. Something has to be done.

My doctor and I applied for Valeant's patient assistance program and I was denied financial assistance. I then wrote Michael Pearson, the CEO of Valeant, asking why there was such dramatic price increase. Valeant Customer Service replied: "the investments we make to develop and distribute novel medicines are only viable if there is a reasonable return on the company's investment."

The President of the Wilson Disease Association and my doctor communicated with Valeant representatives and were told I did not qualify for aid because I was on Medicare. I also applied to the Patient Access Network Foundation (PAN) and was told my income precluded support from their foundation.

My doctors and I then discussed switching to an alternative. In October 2014, I switched to Galzin, a zinc salt. Galzin works differently than Syprine. It inhibits the absorption of copper rather than extracting it.

Is this treatment sufficient for me? We are still monitoring its effectiveness.

Galzin costs me about $480 per year. The only reason I changed was the cost, even though none of the cost is covered by my insurance. My health was stable with Syprine and my doctor and I made the change only under duress. Galzin is not the preferred treatment for me.

A year after I stopped taking Syprine, a reporter from *The Financial Times* interviewed me and then talked to Valeant about my case. Later that day, a Valeant representative called offering to help. He noted that while Valeant strives to help everyone, there are limits because of the government. He said he might be able to work with me as an exception. I told him I did not want to be an exception. I wanted everyone to have the same opportunity. If the money for assistance comes from insurance companies, 'we' are still paying. If the money

comes from the government, 'we' ultimately pay the price. Shifting who pays doesn't solve the problem.

Then a local florist called inquiring where to deliver flowers. They told me Valeant sent the flowers with a note saying it was a pleasure taking to me and to let them know if they could be of assistance. I refused the flowers and asked that the sender be informed of my refusal.

My doctor and I received letters stating I was enrolled in the assistance program and receiving free Syprine — which was not true. A message was also left on my phone asking if I still needed help. All of this happened more than a year after I stopped using Syprine.

This is my story. I am fortunate. But I do not want others to face these same challenges. I don't have answers but as a victim of this disease and the outrageously high cost of the preferred drug to treat the disease, I do question how Valeant can justify, financially and morally, increasing the price of Syprine since it is an old drug, out of patent, and had been reasonably priced until they began manufacturing it.

Thank you for the opportunity to address the Committee today and for the opportunity to hopefully contribute to some action to stem this contemptible development in the pricing of orphan drugs. I look forward to answering any questions you might have.

Testimony Submitted by Dr. Frederick Askari to the

United States Senate Special Committee on Aging

"Valeant Pharmaceuticals' Business Model: the Repercussions for Patients and the Health Care System."

Hearing on April 27, 2016

Good afternoon and thank you Chairman Collins, Ranking Member McCaskill, and distinguished members of the Committee for holding this hearing. My name is Dr. Fred Askari, and I serve as Director of the Wilson Disease Center of Excellence at the University of Michigan. I directly treat around 400 Wilson disease patients, and consult on dozens of other cases.

Wilson disease is a rare genetic disorder of copper processing that is fatal if not diagnosed and treated. Copper is in the food we eat, and it is an essential trace element necessary for life. In people with Wilson Disease, due to a genetic defect, copper accumulates to toxic levels. Copper overwhelms the body, chiefly damaging the liver and brain.

Wilson disease is completely manageable with proper treatment; however it is a uniformly fatal disease if left untreated. It can be a crippling disease if copper levels are not well controlled or if the diagnosis is not made early enough. Risks of going untreated vary and depend on state of disease control, but toxicity can onset in as few as several weeks after stopping treatment. Risks of not treating Wilson disease or gaps in treatment include liver failure, brain damage, and death.

While there is no known prevention or cure for Wilson disease, there are treatment options, and people managing the disease with medication are often able to live full, healthy, and productive lives. The medications must be taken daily for life. Treatment options utilize two types of action: (1) Chelating agents that prompt the organs to release copper into the bloodstream to be filtered by the kidneys and eliminated through urine; and (2) Zinc-based therapies which prevent the body from absorbing the copper. The standard of care has called for utilizing a chelating agent at least initially to remove the excess copper. When copper levels are stabilized, patients move to a daily maintenance therapy either through continuing on a chelating agent or switching to zinc.

Historically, the first line of treatment for Wilson disease was penicillamine, known by the trade name Cuprimine. This is a chelating agent that works by removing excess copper. It has been used to treat Wilson disease since 1956. While penicillamine continues to work for many, it is no longer the default for every patient because approximately one third of patients

experience adverse side effects. The gold standard for treatment today is trientine, known by the trade name Syprine, which causes fewer side effects.

Once the patient has been stabilized with Syprine, some patients can be switched to zinc treatment. The FDA approved zinc acetate is called Galzin and prevents the body from absorbing copper. In some patients, Galzin causes extreme stomach upset and gastrointestinal problems.

The persistently increasing price of Valeant's Wilson disease drugs poses a problem for up to half of my patients. One patient was denied coverage, and left off treatment completely for several weeks. Another, a 17 year old patient, lives in fear of losing coverage when he turns 24, as his mother was forced to take early retirement. Access to appropriate treatment is especially a problem for seniors with Medicare.

I have worked with dozens of patients to obtain Syprine through Valeant's patient assistance program. It is time-consuming and frustrating. My clinic has had to hire two full time employees just to deal with the red tape caused by the price hikes, such as the paperwork for the patient assistance program and associated insurance claims. Even when patients are approved for patient assistance, they cannot be certain they can stay in the program—they have to reapply every year.

While the process of applying for patient assistance programs is difficult enough as is, it is especially difficult for Wilson disease patients. Some have neurological conditions, which can make it even more difficult for them to navigate the programs. Many patients who are able to get the drug they need worry they may lose access in the future, and may hoard pills or skip doses to prevent being caught without.

Finally, I am not here to cast blame on the entire drug industry. Ethical pharmaceutical companies do support research, which provides new and improved treatments for diseases. Wilson patients have many unmet needs with current treatments. Based on an expectation of reasonable investment returns, companies invest in developing these new treatments, such as gene therapy, once daily dosing regimens, and novel therapies such as one being investigated, TM, which offers hope for improved neurological outcomes. We are fortunate that there are companies which safely manufacture, test, and distribute medications for rare diseases. One should not confuse companies which institute sudden and dramatic price increases on longstanding critical drugs with those which are truly developing new ones. There is an enormous human cost associated with these practices. I urge Congress to work diligently to arrive at policies that will protect patients, while maintaining incentive for new lifesaving therapies.

I thank the Committee for investigating this important issue, and for the opportunity to share my concerns. I look forward to answering your questions.

TESTIMONY OF DR. RICHARD I. FOGEL, MD, FACC, FHRS

CHIEF CLINICAL OFFICER, ST. VINCENT, INDIANA,

A MEMBER OF ASCENSION

Before the

UNITED STATES SENATE SPECIAL COMMITTEE ON AGING

Hearing on

VALEANT PHARMACEUTICALS' BUSINESS MODEL:

THE REPERCUSSIONS FOR PATIENTS AND THE HEALTHCARE SYSTEM

April 27, 2016

Testimony for the Record
Submitted to the
United States Senate Special Committee on Aging
For the hearing on
Valeant Pharmaceuticals' Business Model:
The Repercussions for Patients and the Healthcare System
April 27, 2016
Dr. Richard I. Fogel, MD, FACC, FHRS
Chief Clinical Officer, St. Vincent, Indiana, a member of Ascension

Good afternoon, my name is Dr. Richard Fogel. I am a practicing cardiologist and electrophysiologist and the Chief Clinical Officer for St. Vincent, a faith-based health system that is part of Ascension, the nation's largest non-profit and Catholic health system. St. Vincent is one of Indiana's largest employers with 20 hospitals serving 57 counties in central and southern Indiana. Ascension provides care in 24 states and the District of Columbia, where 160,000 caregivers and other associates are committed to delivering compassionate, personalized care to all, with special attention to those living in poverty and most vulnerable.

Thank you for holding this hearing today to explore recent hyperinflation in pharmaceutical pricing and how it affects both patients and care providers. As healthcare practitioners, we are at a transitional time in which we are moving away from fee-for-service reimbursement – receiving payment for each service to a patient – to a fee-for-value payment system – receiving incentives to make the system more effective and efficient. In this new world of "population health," we see reimbursement flattening or even decreasing, pushing providers and consumers to be ever more vigilant about our spending and management of resources.

As Chief Clinical Officer of a 20-hospital system with 16,000 employees, I work hard to focus our providers on achieving what has been called the Quadruple Aim. The goal of the Quadruple Aim is to improve the health of populations; reduce the cost of care; and enhance the patient and provider experience. The Quadruple Aim serves as the foundation of our clinical work at St. Vincent and Ascension.

Unfortunately, rising drug prices are contrary to the goals of the Quadruple Aim.

Pharmaceutical prices in general are rising much faster than inflation, and prices for hospital-administered drugs are growing even faster than general pharmaceutical price inflation. A recent report from the IMS Institute for Healthcare Informatics estimated that U.S. drug spending increased by 8.5 percent last year – more than any other year in the past decade except for a double-digit spike in 2014. According to IMS, the increase in drug spending is much higher than originally thought due to increases in the cost of hospital-administered drugs, whose cost is rising faster than retail pharmacy spending.

In contrast to the overall 8.5 percent increase in drug spending reported by IMS, drug spending at Ascension has increased 11 percent over the last year. This resulted in an increase of $73.9 million in our drug spending from February 2015 to February 2016.

Double-digit increases are not out of the norm. In fact, we have seen increases of 500 percent, 1000 percent and even up to 3000 percent on select products, both branded and generic. These cases have shown no observable market-related changes to justify triple- and quadruple-digit increases. Included in my testimony is a table with Ascension's top increases in mature drug costs. This table represents the spending on our older brand and generic drugs; it does not include the new or "blockbuster" drugs.

As healthcare providers, we can't provide the quality care that our patients deserve without the partnership of the pharmaceutical industry. It is important that we protect intellectual property and reward innovation. We understand that in certain circumstances the price of a drug may be at a reasonable premium when that drug represents a true clinical advancement or breakthrough in treatment. While we understand a steady, rational increase in prices, it is the sudden, unfounded price explosions in select older drugs that hinder us in caring for patients. While pharmaceutical price inflation is nothing new, the increases that we have seen in the last few years are simply unprecedented.

What I find particularly troubling is when drugs that have been around for decades – and whose formulations have not changed – are suddenly and steeply increased with no apparent justification.

As a cardiologist who specializes in electrophysiology, I have seen firsthand the impact of price increases in two drugs in particular: Isuprel and Nitropress. Isuprel is a drug that increases slow heart rates and has been used during procedures to treat heart rhythm problems for decades. Nitropress is used to acutely lower blood pressure in patients whose blood pressure has risen to life-threatening levels. I first used Nitropress as a medical student in the mid-1980s, although the drug was available for years before.

When Valeant Pharmaceuticals purchased these drugs in 2014, St. Vincent saw the unit price of Isuprel increase from approximately $204 per vial to approximately $1,265 per vial

for a 521 percent increase from 2014 to 2015. We saw Nitropress increase from about $203 per vial to about $729 per vial, a 259 percent increase from 2014 to 2015.

Combined, these two drugs alone resulted in a nearly $12 million increase in cost to Ascension in one year and nearly $900,000 to St. Vincent. Despite a significant reduction in utilization, the overall Isuprel cost increased 253 percent and the Nitropress total cost increased 81 percent.

I would note, however, that pharmaceutical price increases are not limited to only a few drugs. Ascension tracks cost changes on a weekly basis, and we are projecting no change in the 11 percent year–over-year inflation for the foreseeable future.

In an effort to mitigate such increases in cost, Ascension created a national therapeutic affinity group in 2013. This group consists of pharmaceutical leaders and physicians from our system across the nation. In addition to medication safety initiatives that improve outcomes and increase patient safety, these leaders feel it is imperative to also look for alternate therapies that provide effective care and also achieve savings for the system and those who ultimately pay for healthcare.

For example, Nitropress is an ideal drug to treat blood pressure issues in patients as it is very effective and very responsive. By adjusting the dosing by turning a dial up or down, we can precisely control a patient's blood pressure so it's where we need to it be. However, due to the sharp increase in pricing, we have worked to mitigate the cost and have turned to evidence-based use of other drugs, such as intravenous Nicardipine, which has a similar action. At St. Vincent, we have reduced the usage of Nitropress by 48 percent, and its use has been reduced by 47 percent across Ascension. That being said, we are still spending more on Nitropress than we did prior to the 2014 price increases.

Likewise, the use of Isuprel has been reduced by 43 percent at St. Vincent and by 52 percent across Ascension. While this kind of nimbleness should be applauded, it can't compensate for the significant increases in these two fundamentally important cardiovascular drugs.

To date, our therapeutic affinity group has taken on more than 70 such projects across our 137-hospital system. This work is not easy. It takes much time and effort to gather the data, create potential alternatives, socialize, move through an approval process and then implement. We will not compromise patient safety and will not recommend switching to a therapeutic equivalent unless we are convinced that the switch is evidence-based and will not have an adverse impact on patients.

What is disheartening is that all this work can be wiped out with a stroke of a pen by a pharmaceutical company with no equivalent patient benefit. Steep price increases, with

little or no justification, often following consolidation or change in ownership in the manufacturing rights to a drug, do not serve patients, but they do serve the new company's bottom line.

In the inpatient setting, insured patients are somewhat shielded from financial impact as hospitals are typically paid a bundled payment covering the entire hospital stay. The cost of drugs used during a hospital stay is paid out of that bundled payment, which means that when drug costs increase, this cost comes out of the hospital's pocket first.

Hospitals also generally shoulder the burden for those patients who are self-pay (or uninsured) through charity or uncompensated care.

That being said, it is important to realize that pharmaceutical cost increases have a real and measureable impact on the patient. In the longer term, an increase in pricing will be felt by all patients as increased costs will eventually contribute to higher insurance premiums and/or higher costs for patients. More immediately, our decreased margins affect our ability to provide other patient-centered services that we deliver as part of our mission.

For example, as we continue our journey toward population health, we look for ways to keep our patients healthier. One program that I am most proud of is our Rural and Urban Access to Health (RUAH) initiative, in which we send health access workers to our communities to assist those who are poor and vulnerable sign up for insurance and connect them to other community resources, including other healthcare services, food, transportation or housing. These efforts do not provide revenue for St. Vincent, but they are services we provide because it is the right thing to do for individuals in our communities. With less available care dollars, it is a greater challenge to expand these types of community benefit programs.

Another effort we have undertaken is to do our part to fight the opioid epidemic. With deaths related to opioid addiction now surpassing deaths by automobile accidents, I am passionate about exploring ways that our health system can improve our patient and community services related to addiction. Addiction requires long-term treatment and personalized care. It is expensive but crucial if we are going to begin to address our current crisis. But these programs require funding. Before creating such new programs, we have to consider budget implications. There is no way around that. Increasing budgetary pressures on providers from higher drug costs will impact the creation of these programs, which serve the most vulnerable members of our communities.

More broadly, it is also important to note that many small community and critical access hospitals operate on tight margins. In recent years, we have seen more of these hospitals close because the financing was simply unsustainable. While pharmaceutical inflation is not

the only factor in this burden, it is a significant factor, and left unchecked it will contribute to the closing of more community hospitals.

Recommendations

Pharmaceutical hyperinflation is an issue that has only become worse in recent years and is not expected to subside. On behalf of St. Vincent and Ascension, we appreciate the Committee's attentiveness to the issue, and we strongly support the policy solutions released earlier this week by the Campaign for Sustainable Rx Pricing.

The Campaign for Sustainable Rx Pricing is a nonpartisan coalition of organizations, finding bipartisan, market-based solutions to lower drug prices in the U.S., aiming to strike a balance between innovation and affordability. In this pursuit, the coalition has published market-based reforms that address the underlying causes of high drug prices in the U.S. through increased transparency, competition and value. These policy solutions were developed with the strong participation and endorsement of the American Hospital Association, as well as physicians, nurses, consumers, health plans, pharmacists and employers. A copy of these recommendations is included as an attachment to my testimony, and I would like to highlight some of these proposals.

Price Transparency: The Physician Payments Sunshine Act requires medical product manufacturers to disclose to the Centers for Medicare and Medicaid Services (CMS) any payments or other transfers of value made to physicians or teaching hospitals. Likewise, hospitals are required to submit cost and quality data to the Department of Health and Human Services annually. Since the true cost of pharmaceuticals remains so complicated, I recommend similar transparency be required for current and historical drug pricing.

Food and Drug Administration (FDA) Fast Track Approval for Drugs to Increase Competition: Hospitals can negotiate aggressively for better pricing on drugs when there is competition. But when there is only one source for a drug and there are no therapeutic alternatives, we have very little bargaining power. We can limit utilization to necessary cases, but there is no way around paying the increased price.

In such cases, it would be helpful for the FDA to create an accelerated pathway to bring competing suppliers to the market. For example, as many others have also noted, in some cases the first drug in a new class of drugs is approved on a fast track at the FDA in order to bring an important new therapy to market. This is a good policy; however, we would suggest that the FDA also approve the second drug in the new class on a fast track. Not only would this competition help bring down the cost of drugs by providing an alternative, it may also offer a distinct clinical advantage for certain patients by utilizing the second drug.

I understand that the FDA has been working to prioritize generic reviews in cases where there is only a sole-source generic, which I fully support. The existence of an accelerated FDA pathway to bring a competitor to the market just may serve as a deterrent to steep, unjustifiable price increases in an opportunity pricing model.

Protect the 340B Program: In addition to the proposals by the Campaign for Sustainable Rx Pricing, I would also urge your support for the 340B Program. This program helps safety-net healthcare providers extend services to low-income and vulnerable populations by allowing qualified hospitals, clinics and health centers to purchase outpatient prescription drugs at discounted prices. Ascension has 31 actively participating 340Bs nationwide.

Several of our St. Vincent hospitals in Indiana are eligible for the 340B Program. For example, in 2014, the St. Vincent Joshua Max Simon Primary Care Clinic served more than 62,000 patients and filled more than 66,000 340B prescriptions. Patients served at the clinic are charged for drugs on a sliding scale based on their income. Most of those served pay only 20 percent of the 340B discounted price, with the remainder covered by St. Vincent. Without the 340B Program, the Clinic would not be able to provide its patients the prescription medications they need at a cost they can afford.

At our health system, Via Christi in Kansas, a woman was diagnosed with a rare, typically fatal neuromuscular disease that affects only 1 in 40,000 people. The only medication available to treat her disease was investigational and costs about $400,000 per year. With the 340B Program, the drug's price was reduced by one-third, and Via Christi covered the remaining cost.

At our St. Thomas Hickman Hospital in Tennessee, a patient suffering from bipolar disorder had been hospitalized multiple times because she could not afford her medications. The closest psychiatric hospital is 60 miles away from her home. Because of the 340B Program, the patient was able to obtain her medications free of charge from a local pharmacy. As a result, she has been able to remain well enough to stay out of the hospital.

I understand that some are calling for significant restructuring of the 340B Program. As pharmaceutical companies are increasing prices at an alarming rate, I can't think of a worse time to be thinking of cutting a program designed to make drugs more affordable for those at the lower end of the income spectrum.

Conclusion

At Ascension and at St. Vincent, we are dedicated to providing spiritually-centered, holistic care that sustains and furthers both individual and community health. We support solutions that keep drug prices low and provide important discounts to hospitals that serve those

who are struggling most. We look forward to working with Congress to develop and support solutions that improve the health of the population, enhance the patient experience and outcomes, and reduce the cost of care.

Statement of
J. Michael Pearson
Chief Executive Officer and Director,
Valeant Pharmaceuticals International, Inc.
before the
Special Committee on Aging
United States Senate

April 27, 2016

Chairman Collins, Senator McCaskill, and Members of the Committee, thank you for the opportunity to appear before you today and to address your questions about Valeant. I have had the privilege of serving as Valeant's CEO since 2008. As was recently announced, the Valeant Board of Directors has selected Joseph Papa, formerly the CEO of Perrigo Company plc, as Valeant's next CEO. I will be leaving the company as soon as he takes over, likely within the next few weeks.

During my service as CEO, Valeant has grown quickly and substantially – from a company with 3,000 employees and about $650 million in revenue, to a leading global pharmaceutical and consumer products company with about 22,000 employees and approximately $12 billion in revenue. This rapid growth was driven both by our acquisition of numerous highly respected companies, like Bausch+Lomb, Salix Pharmaceuticals, and Dow Pharmaceutical Sciences, and by internal growth that relied upon bringing new products to market more quickly and efficiently than our competitors.

Along the way, we made many decisions of which I am proud, such as launching new drugs, investing in U.S.-based R&D and manufacturing operations, and pioneering new ways to improve patients' access to medicines. But we have also made mistakes, including those that bring me here today. In particular, the company was too aggressive – and I, as its leader, was too aggressive – in pursuing price increases on certain drugs. Let me state plainly that it was a mistake to pursue, and in hindsight I regret pursuing, transactions where a central premise was a planned increase in the prices of the medicines, such as our acquisition of Nitropress and Isuprel from Marathon Pharmaceuticals.

Today, Valeant is a collection of world-class franchises. In the United States, we are a leading dermatology, gastrointestinal, ophthalmology, and consumer healthcare company. Valeant makes and markets approximately 1,800 products, including more than 200 prescription drug products in the United States. Price increases in a small segment of our company have overshadowed our activities in these broader areas, and I recognize that we therefore need to work to regain the confidence of Congress, the public, doctors, and patients.

We understand Congress's and the public's concerns about drug prices, and we have sought to respond. We have created a volume-based price rebate program for Nitropress and Isuprel, the two hospital drugs that prompted the Committee's inquiry. The program provides hospitals with tiered volume rebates up to 30% for the hospitals that are the most frequent users

of the drugs. These rebates have been implemented through two leading hospital group purchasing organizations, making the discounts widely available to hospitals – large and small – across the United States.

For prescription products purchased by consumers at retail pharmacies, we launched a 20-year program with Walgreens that will provide substantial savings for patients. In conjunction with that program, we will provide an average 10% list price reduction for a majority of our branded dermatology, ophthalmology, and women's health products, and up to a 95% reduction on certain branded products for which there is a generic alternative. This innovative program recognizes that changes in the pharmaceutical sector have significantly altered the distribution of prescription drugs in the United States. With large national pharmacies like Walgreens serving most Americans, we can significantly reduce drug costs to patients by working directly with the pharmacies and avoiding distribution inefficiencies. For example, by selling drugs on consignment, Valeant has reduced the cost of inventory for the pharmacy, and those savings can be passed on to the consumer. Finally, as part of the company's reassessment of its approach to price increases, we limited recent price increases to those specifically addressed in our contracts with the large pharmacy benefit managers.

We have other longstanding programs that provide patient assistance, such as capped copays for commercially insured patients and up to zero copays for patients meeting certain income thresholds. These programs are designed to ensure that out-of-pocket expenses do not prevent eligible patients from receiving the medicines that their doctors have prescribed. Valeant offers patient assistance programs for more than 55 products, and we expect to spend more than $1 billion on patient assistance in 2016. We are very proud of this ongoing effort to ensure affordable patient access to our prescription drug products.

Research and Development

Like most large pharmaceutical companies, Valeant makes significant investments in research and development. Valeant's U.S. pharmaceutical R&D spending was about 8% of our U.S. branded pharmaceutical revenue last year, and we estimate that total U.S. R&D spending will be about $400 million in 2016. We have 43 R&D facilities and approximately 1,000 R&D employees worldwide.

Unlike others in the industry, we have taken a different strategic approach to our R&D spending by avoiding open-ended research and focusing instead on R&D results. Our results speak for themselves. Over the past five years, our productivity (drugs approved per dollar spent) is seven times higher than the average of the fifteen pharmaceutical companies with the most new drug approvals. In the last three years, the FDA has approved 6 new drug applications and issued 13 device approvals to Valeant. Among these are drugs that Valeant took all the way from the pre-clinical stage to final FDA approval, such as Jublia and Onexton. In the past two years, Valeant has launched 76 new prescription drugs, generic drugs, medical devices, and other products in the United States. Our U.S. R&D pipeline contains more than 200 active programs, more than 100 of which we consider significant, including programs for 32 surgical products, 26 consumer products, and 15 dermatology products.

Valeant currently has more than 20 active Phase II/III studies spanning ophthalmology, dermatology, and gastroenterology and many more early stage preclinical projects. We expect that these projects will provide new treatments for Crohn's Disease, acne, actinic keratosis, ocular inflammation, psoriasis, glaucoma, atopic dermatitis, and liver cirrhosis, and new options for cataract patients. Additionally, Valeant is developing a new trifocal lens, which would be the first of its kind in the United States and would give surgeons and patients a new option to help treat the growing elderly population worldwide. Our late-stage programs include brodalumab and IDP-118 (treatment of moderate to severe plaque psoriasis), Latanoprost Bunod (topical treatment of glaucoma), and a new state-of-the-art Lasik laser that is more effective and reduces post-operative scarring for patients requiring laser eye treatment. These innovations directly contradict the narrative advanced by those who have sought to minimize our commitment to R&D.

We have also tried to learn from the trends that have invigorated the technology sector by supplementing our internal R&D with acquisitions, licensing agreements, and partnerships with innovative startups and academic research institutions. Some of the most exciting innovations and developments in the healthcare sector are occurring in these settings, rather than in the large, bureaucratic research laboratories of big pharmaceutical companies. The Deloitte Center for Health Solutions recently looked at this trend and concluded that "smaller companies are delivering higher R&D returns" than 12 of the largest research-based life science companies. The smaller companies had both lower costs (25% lower, on average) and higher internal rates of return (340% higher) on their R&D spending. Deloitte's findings very much track the philosophy that has shaped Valeant's successful approach to R&D.

By acquiring innovative products developed in these smaller settings, and then investing significantly to bring the new products to market, Valeant has brought new products to market faster and more efficiently. As just one example, Valeant acquired the rights to our antifungal drug Jublia through our purchase of Dow Pharmaceutical Sciences in 2008. At that point, Jublia had a long way to go before it could be approved by FDA and made available to patients. We invested in Jublia through Phase I/II/III clinical trials and then achieved FDA approval in 2014. Jublia is not an anomaly – it was the fourth drug from the Dow acquisition for which Valeant received FDA approval.

We also invest in R&D following our larger acquisitions. For example, after Valeant acquired Bausch+Lomb, the FDA approved the company's Ultra contact lenses, which use breakthrough technology to make contacts more comfortable. To support the production of the highly popular Ultra lenses, along with other lenses, Valeant expects to invest almost $500 million and add approximately 630 jobs in Rochester, N.Y., including many highly skilled engineering and manufacturing jobs, over the next five years.

Cuprimine, Nitropress, and Isuprel

The Committee's investigation has focused on Valeant's pricing of Cuprimine, Nitropress, and Isuprel – three of our 1,800 products. Each of these drugs was acquired by Valeant through commercial transactions: Cuprimine in 2010 through our purchase of Aton Pharma, Inc. in 2010, and Nitropress and Isuprel were acquired from Marathon Pharmaceuticals in 2015.

Early in my tenure as CEO, Valeant identified the ophthalmology sector as a strategic target for the company. The long-term implementation of this strategy began with our acquisition of Aton and culminated in our acquisition of Bausch+Lomb in 2013. Aton was attractive to Valeant because its glaucoma treatments provided Valeant with entry into the ophthalmology sector.

As part of the Aton transaction, Valeant also acquired Cuprimine and Syprine, two drugs for orphan diseases that are used primarily to treat a genetic disorder called Wilson's Disease. An orphan drug is generally a specialized drug that treats a rare disease. Valeant estimates that Cuprimine is taken, for example, by about 600 to 700 patients in the United States, an exceedingly small patient population even by orphan drug standards. For comparison, the FDA's official orphan drug designation includes drugs treating diseases affecting 200,000 or fewer patients in the United States.

Because these are critical and life-saving therapies for this extremely small patient population, Valeant maintains a robust patient assistance program for both Cuprimine and Syprine. The patient assistance program for Cuprimine and Syprine, called Valeant Coverage Plus, is one of our largest assistance programs. Valeant Coverage Plus provides a capped co-pay for patients with commercial insurance ($25 co-pay), subsidized prescriptions for patients without insurance or with low incomes (including $0 co-pay below 400% of poverty line), and referrals to a foundation that provides prescription support for patients in federal health programs. The foundation is supported, in part, by a Valeant grant and it independently determines a patient's eligibility, pursuant to its own criteria. Finally, Valeant routinely provides hardship exceptions for patients who do not otherwise meet these criteria, when we are permitted to do so by law.

Nitropress and Isuprel were acquired by Valeant in a very different context and, in retrospect, I believe that our acquisition of these products was a mistake. Valeant was approached about the acquisition of Nitropress and Isuprel (along with some smaller products) from Marathon. It is my understanding that Marathon told us it was looking to divest these products as part of its own strategic restructuring and focus on raising capital to develop its rare disease pipeline.

From the beginning, a key selling point advanced by Marathon was data that it had accumulated showing that Nitropress and Isuprel were mispriced relative to their value to hospitals and the hospital reimbursement rates for the procedures in which these drugs are used. When, during our due diligence, we found that generics for both drugs were likely on the near-term horizon, we elected to implement the significant price increases immediately upon purchasing the drugs.

In retrospect, we relied too heavily on the industry practice of increasing the price of brand name drugs in the months before generic entry. Instead, in my view, we should have abandoned the transaction with Marathon when it became clear that the expected arrival of generic competition made the economics of the deal dependent on significant price increases. Howard Schiller's testimony before the House Oversight and Government Reform Committee in February has extensive additional details regarding the drugs, the pricing consultants' analyses,

and the bundled reimbursement rates paid to hospitals for the procedures in which these drugs are used. I refer the Committee to that testimony for these additional details.

Most hospitals use only very small amounts of Nitropress and Isuprel. Last fall, when it became clear to us that the price increases implemented as part of the Marathon transaction were having a significant and disproportionate impact on some hospitals that are the heaviest users of one or both of these drugs, we sought to implement a volume based rebate program to address these concerns. Over the last few months, we have contracted with two large group purchasing organizations – Premier and MedAssets, organizations that purchase pharmaceuticals on behalf of hospitals – to provide tiered volume-based rebates. Premier represents about 3,600 hospitals and MedAssets represents about 4,500.

There are about 5,600 registered hospitals in the United States, and we believe that these two overlapping GPOs provide access to the volume rebate to nearly all U.S. hospitals. I encourage any hospital that is not able to access these GPOs to contact the company directly. For example, we established a separate agreement with Kaiser Permanente to provide a discount to their 38 hospitals, and we recently agreed to a discount program for the Veterans Affairs Department's Federal Supply Schedule, which serves the VA hospitals and clinics, and other federal medical centers such as the Indian Health Service. Our intent is to ensure that the volume discounts are available to any hospitals that make use of Nitropress or Isuprel.

Our agreements with Premier and MedAssets provide the first tier of the discount to any hospital that purchases 10 or more units of Isuprel or 100 or more units of Nitropress in any calendar quarter. Our information shows that the volume rebate is working. Our sales volume of Nitropress and Isuprel in February, March, and April of this year have been greater than we predicted.

I regret that the narrow focus on Cuprimine, Nitropress, and Isuprel has given Congress and the public a misimpression that our strategic focus revolved around acquiring older, off-patent drugs, which in fact was not the case. The context of the Aton and Marathon acquisitions belies this misimpression.

The Aton acquisition occurred in the midst of Valeant's merger with Biovail, a $3 billion transaction that doubled the size of the company, far surpassing the scope and corporate significance of the $318 million acquisition of Aton. Likewise, the Marathon acquisition occurred between our attempted acquisition of Allergan in 2014 for approximately $50 billion and our acquisition of Salix Pharmaceuticals in March 2015 for $11 billion ($16 billion, including debt and equity). Again, these transactions were far more significant for Valeant and its strategic focus than the $350 million transaction with Marathon.

When considering Valeant's strategic focus and the allocation of our capital and management resources, these larger, more significant transactions were far more representative of our strategy, the Board's and my managerial focus, and the company's overall direction, than either the Aton or Marathon transactions.

Finally, Madam Chairman, I want to address one of my own personal regrets. In the course of addressing the recent criticisms of Valeant, I have come to realize that because many

of my public statements have occurred in the context of talking with shareholders – and those remarks naturally focused on shareholders' interests – my cumulative public comments have left the misimpression that shareholder interests were my only focus as CEO of Valeant. That is absolutely not the case. It is not fair to the 22,000 Valeant employees who work every day to develop and make available important medicines for patients, nor to the doctors and patients that we serve. I am grateful for this opportunity to seek to correct this misimpression before my tenure as Valeant's CEO comes to an end in the near future.

Valeant has obligations to many stakeholders, including patients, doctors, shareholders, and others. We have always sought to balance these obligations in an appropriate manner. When we have raised prices, we have done so knowing that there are many ways in which we work to ensure affordable patient access to our drugs. I believe that Valeant employees at every level always took seriously our mission to ensure patients' access to the drugs that their doctors prescribed for them. And we still do. In the retail context, our patient assistance programs have been a critical means of ensuring patient access. In the hospital setting, where we have far less experience, we worked with expert consultants to assure ourselves that price increases would not impair patient access, in the context of high, CMS-approved reimbursement rates for hospital procedures. I regret that my public focus on shareholders left the seriously inaccurate impression that Valeant did not consider the impact of our decisions on patients. We absolutely did, and we still do.

In that regard, Valeant is intently focused on rethinking our approach to drug pricing going forward. I expect that under my successor, the company will no longer be seeking to acquire mispriced drugs. We expect our pricing actions to track industry norms. As I will be leaving the company soon, decisions regarding our process for setting drug prices will be made by others. But the new process is likely to involve greater formality, and certainly it will reflect the painful lessons we have learned over the last year.

Thank you again for the opportunity to testify today. I would be happy to answer your questions.

Testimony of Howard B. Schiller
To the Special Committee on Aging
April 27, 2016

Chairman Collins, Ranking Member McCaskill, and Members of the Special Committee on Aging,

Thank you for calling me to testify. I am happy to appear before you today.

I joined Valeant in 2011 as its Chief Financial Officer. I stepped down from that position after June 2015, while remaining on the company's board of directors. I served as Valeant's interim-CEO for approximately two months at the beginning of 2016, as Mike Pearson was on medical leave. I am not currently a member of the management team at Valeant but remain on the board today.

As you are aware, in February of this year, I gave testimony concerning Valeant and price increases in the prescription drug market before the House Oversight and Government Reform Committee. Also, on April 6, I was deposed on similar issues by members of the staff of this Committee. I spent a full day with the staff, and I hope I was able to provide information that will be useful to the Committee.

Because I've previously had the opportunity to be heard, I will spare the Committee a lengthy opening statement. I appreciate the chance to be here today. I am happy to answer any questions the Committee has for me.

Statement of William A. Ackman
Founder and CEO of
Pershing Square Capital Management, L.P.
before the
U.S. Senate Special Committee on Aging

April 27, 2016

Chairman Collins, Ranking Member McCaskill, and Members of the Committee, thank you for the opportunity to testify and to address your questions regarding the relationship of my investment firm, Pershing Square Capital Management, L.P., with Valeant Pharmaceuticals International, Inc., and Pershing Square's role on the Valeant Board of Directors.

I am the CEO of Pershing Square Capital Management, L.P., an investment firm I founded in 2003 which is located in New York City. Pershing Square manages several private investment funds and a publicly traded fund with total capital under management of approximately $12.5 billion. We are registered with the SEC as an investment advisor, with the CFTC as a commodity pool operator, and with several foreign regulators. Our investors include public and private pension plans, sovereign wealth funds, university endowments, foundations, high net worth individuals, other investment funds, non-U.S. public investors, and Pershing Square employees.

In addition to my role as CEO of Pershing Square, I also serve on the Board of Trustees of Rockefeller University, the Board of Dean's Advisors of the Harvard Business School, and the Board of the Pershing Square Foundation, a charitable foundation that I founded in 2006. Since its inception, the Pershing Square Foundation has made donations, grants, and mission-related investments of approximately $375 million in global healthcare delivery, early-stage cancer and basic medical research, obesity related research, education, poverty alleviation and economic development, human rights advocacy, criminal justice reform, arts and culture, and programs to support our nation's retired military, among other areas. I also serve on the boards of a number of public companies including the Canadian Pacific Railway, The Howard Hughes Corporation, and, most recently, Valeant Pharmaceuticals.

Pershing Square is a highly concentrated investor. We generally own stakes in only 10 to 12 companies which are typically large capitalization, widely known, North American companies. We are a long-term investor with a target holding period of about four to six years. We are often the largest or second largest holder of each of our investments, and often have board representation.

Our investments include Mondelez, the Illinois-based snacks and confectionary company that was once part of Kraft; Canadian Pacific Railway, the second largest Canadian railroad; Restaurant Brands, the parent company of Burger King and Tim Hortons; The Howard Hughes Corporation, a Dallas-based real estate development company which owns large-scale assets in Hawaii, Las Vegas, Houston, Columbia Maryland, and New York City; Zoetis, a New Jersey-based animal health company; and the Air Products Corporation, a global industrial gas company

based in Allentown, Pennsylvania. Our portfolio companies employ hundreds of thousands of people in the United States and around the world.

In our more than 12-year history, we have shorted only a handful of stocks, and we have done so when we have uncovered fraudulent or otherwise illegal businesses that are causing harm. Our only current short position is Herbalife International, a pyramid scheme that currently trades on the New York Stock Exchange and that is systematically bilking low-income aspiring Americans from tens of thousands of dollars that they cannot afford to lose by fraudulently inducing them to invest in a false business opportunity. Herbalife is currently under investigation by the Federal Trade Commission, the SEC, and the Department of Justice. We look forward to the government taking action against Herbalife to keep it from causing further harm.

We often implement an active investment strategy in which we target companies that have underperformed their potential. We do so by becoming a large shareholder, obtaining board representation or an otherwise influential role, and then by assisting the company in making management, governance, operational and other changes. While not every active investment we have implemented has been successful, our batting average has been very high. The vast majority of companies in which we have played an active role have dramatically improved during our period of ownership, and continue to do so years after we have exited.

We do not take an active role in all of our investments. When the price is right, the business is of sufficient quality, and we have confidence in management and the company's governance, we are willing to be a passive investor. Restaurant Brands is a good example of one of our passive investments. At the inception of our investment in Valeant, it was also one of our more passive investments.

We believe that thoughtful, engaged investors are good for shareholders, for the capital markets and for the economy more broadly. Activist investors can bring valuable resources and insights to assist a company in executing its business and strategy. They also give a voice to the vast majority of other investors who are typically passive, and who are unable to play an active role in protecting and enhancing the value of their investments.

While some activist investors have been accused of being short-term oriented, we take a long-term approach in driving sustainable shareholder and business value. As a result, we have obtained the support of the largest permanent investors in the world in our various activist campaigns, which has assisted us in creating substantial long-term value for all shareholders.

Pershing Square's Relationship With Valeant

I first met the Valeant management team in early 2014 when Pershing Square formed a joint venture with Valeant to pursue a merger between Valeant and Allergan. Allergan was at the time a leading specialty drug company in aesthetics, dermatology and ophthalmology. Allergan had a strong track record of organic growth driven by a portfolio of market-leading products, including the fast-growing Botox franchise, but was not known to allocate capital

efficiently or run its business cost-effectively. Given the strategic overlap between Valeant and Allergan's product portfolios, along with Valeant's cost structure, operating model and capital allocation strategy, we believed that a merger between Valeant and Allergan had the potential to create substantial shareholder value.

In April 2014, after acquiring a stake in Allergan, Valeant and Pershing Square proposed a merger between Valeant and Allergan, and a takeover battle ensued. On November 17, 2014, Allergan announced a merger with Actavis plc, and the transaction closed on March 17, 2015. When the transaction closed, Allergan shareholders received nearly two times the value of their Allergan shares before Valeant and Pershing Square proposed the initial merger transaction.

In the course of our joint efforts pursuing the Allergan merger, Pershing Square worked closely with Valeant but was not a Valeant shareholder. After the takeover battle ended, in February of 2015, we decided to become a Valeant shareholder. We believed that Valeant was an attractive investment because of its highly diversified product portfolio, and its dominant positions in ophthalmology and dermatology and other therapeutic areas which were less reliant on government reimbursement.

We believed that Valeant had a strong management team, a good business strategy, and a low-cost and disciplined operating model. We also liked Valeant's approach to research and development, which focused on later-stage, higher-probability drug development, which is both lower-risk and lower-cost, and offers higher returns to investors. Rather than attempt to develop new molecules with an early-stage research program, Valeant has principally built its product portfolio through later-stage R&D investments and by acquiring and licensing new drugs and products.

We found Valeant's approach to drug development, acquisitions, and licensing attractive because most large pharmaceutical companies have, in recent years, been unsuccessful in cost-effectively developing new drugs. Most innovation in pharma in recent years has come from start-ups, biotechnology companies, non-profit research labs, and university research programs. For this reason, the Pershing Square Foundation has focused on funding early-stage research programs at universities and non-profit research labs like Cold Spring Harbor. This shift from large R&D programs housed within big pharmaceutical companies to partnerships with and acquisitions of drugs from smaller, more entrepreneurial companies is analogous to the transformation that has taken place in the technology sector, where the large, internal R&D programs of decades ago have largely been overtaken by innovation in start-ups and smaller, more entrepreneurial businesses that can develop new technologies much more efficiently.

A number of observers have suggested that the more a pharmaceutical company spends on R&D, the better for society. We do not believe this to be true. It is critically important that pharma companies earn attractive returns on the capital they spend on R&D. If their drug development programs are ineffective and wasteful, then their share prices will decline. They will lose access to capital and ultimately fail. For this reason, pharma companies should only invest capital in R&D programs on which they expect to earn a return in excess of their cost of capital.

We believe that a drug company can do as much or more for innovation in pharma by acquiring other drug companies and licensing drugs than by developing drugs internally. Much of Valeant's product portfolio has been built through acquisition where Valeant was the high bidder for smaller innovative companies and their products. As a result of these acquisitions, the selling company shareholders earned an attractive and in some cases spectacular return on their investment from the nearly $40 billion that Valeant has invested in acquisitions. We expect that a high percentage of the after-tax capital received by these selling shareholders is likely to have already been reinvested in other early-stage and innovative drug companies so the cycle of drug development can continue.

Valeant has invested substantially all of its profits other than what it has needed for manufacturing, sales and marketing, and its corporate workforce, in R&D and in the acquisition and licensing of new products and drug companies. Little if any of Valeant's capital has been returned to its investors as it does not pay a dividend and has bought back only an immaterial amount of its shares in recent years. Senior management has been compensated largely in stock that it is highly restricted in selling. As a result, substantially all of Valeant's profits have been invested to promote drug development directly through R&D or indirectly through acquisitions and licensing.

Once Pershing Square became a Valeant shareholder, we continued to interact periodically with management in our capacity as investors, but to a much more limited extent than while we were jointly pursuing the Allergan transaction. Because Valeant's board already had substantial shareholder representation, and we believed that the management team had a disciplined approach to operations and capital allocation, we did not expect to play an active role in our Valeant investment.

Beginning in the spring and continuing into the fall of 2015, press reports about Valeant marking up the price of two heart-related drugs acquired in a recent acquisition attracted substantial negative scrutiny. Also in the fall of 2015, we became aware through press reports of Valeant's investment in and the nature of its relationship with Philidor, a specialty pharmacy that has been accused of aggressive and potentially illegal practices. As a result of these disclosures, the company's stock price, and the value of our investment, began to decline precipitously, and continued to decline over the ensuing months.

Valeant has been appropriately criticized for substantially raising the prices of certain off-patent prescription drugs suddenly and without apparent justification. These issues are worthy of inquiry. As a recent member of Valeant's board, I am committed to ensuring that this approach to drug pricing is never repeated at Valeant.

We understand the importance of ensuring that patients have access to the medications that they need, particularly those medications that treat life-threatening conditions for which there are no therapeutic alternatives. Getting drug pricing right is a serious issue for all pharmaceutical companies, and the interests of pharma companies and their shareholders in generating returns must be balanced with the therapeutic value of pharmaceutical products and the need for patients to have access to affordable medicines.

In order to protect our investment and the interests of our investors, we recently have taken a much more active role at Valeant. On March 8, 2016, our Vice Chairman, Stephen Fraidin, joined the Valeant board, and on March 21, 2016, I also joined the Valeant board. We joined the board in order to help stabilize the company, assist in a management transition if necessary, play a more active role in the company's strategy, and ensure that its corporate governance is effective, while balancing the interests of shareholders, patients, employees, and other stakeholders.

Shortly after we joined the board, Valeant announced that CEO Mike Pearson will step down once a new CEO has been identified. This Monday, Valeant announced that Joe Papa, previously the Chairman and CEO of Perrigo, will become Valeant's Chairman and CEO. Mr. Papa has a superb record and substantial expertise developed during his 35-year career in the industry. We are looking forward to working with Mr. Papa to make Valeant one of the best drug companies in the world.

Valeant also added two other independent directors to the board in recent weeks – Fred Eshelman, who is a 35-year veteran of the pharmaceutical industry, and Thomas W. Ross, who recently served as the President of the University of North Carolina, and prior to that served as a North Carolina Superior Court judge for 17 years. Since joining the board, in addition to identifying new leadership, we and the other Valeant directors have worked aggressively to stabilize the company and address the issues identified in the company's internal investigation of Philidor and related accounting matters.

We understand that contributing to the development of pharmaceutical products and ensuring patient access to pharmaceuticals is an important responsibility of Valeant and we are committed to both of these objectives as members of Valeant's Board of Directors.

As members of the Valeant board, we and the other directors are actively considering a number of mechanisms to ensure that, going forward, the company adequately weighs all appropriate factors, and patient access in particular, when setting prices for its drugs.

While Valeant has made some significant mistakes and has suffered great reputational damage as a result, we believe that the company's employees are hard-working, highly capable, and appropriately proud of the work they do developing, manufacturing, and marketing drugs and other products that improve patients' health and quality of life. I and the other members of the board and senior management will work diligently to ensure that the company's reputation is restored so that Valeant is considered a leader in the industry.

On behalf of Pershing Square, I would like to thank the Committee for addressing these important issues. I welcome any questions you may have.

○