

****As Prepared for Delivery****

Opening Statement
Senator Claire McCaskill
Special Committee on Aging

**“Valeant Pharmaceuticals’ Business Model:
The Repercussions for Patients and the Health Care System”**

April 27, 2016

Thank you Chairman Collins.

I’m 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 that investors are playing an outsize role in these companies.

At this hearing today, we’re 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’s not surprising that Valeant was such a Wall Street darling. Valeant Pharmaceuticals maintained some of the most visible relationships with hedge funds. Since 2007, Valeant has had at least one, and sometimes 4, 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 management consultant at McKinsey and had not previously worked for a pharmaceutical company. Valeant’s former CFO, Howard Schiller, has 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 price 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’re going to hear a lot of talk today about how Valeant cares about patients and R&D, but the documents don’t 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 publically 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.

And today, we’ll hear from Mr. Ackman again, but instead of hearing about how Valeant is a “Special Purpose Acquisition Company”, we’re going to hear about how productive Valeant is in drug development and how much Valeant strategically invests in R&D for the good of society. Which I have some questions about, because the last time I checked, Valeant spent just 3% of its revenue in 2015 on R&D.

And I think it’s 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 healthcare system, patients, or families. Even Valeant’s Patient Assistance Program, appears to have been 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 these so-called specialty pharmacy relationships.

I know we’re going to hear about the regrets that everyone who was involved in making Valeant what it is today has about Valeant’s past behavior. And there have certainly been repercussions as Valeant will be getting a new CEO in a few weeks. But although Mr. Schiller is no longer part of the 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 2mL vial, the price of Isuprel is still \$17,901 for ten 5mL vials, and the price of Cuprimine is still a whopping \$26,188 for 100 capsules. Media outlets are reporting that Valeant’s new CEO may have built a mini-Valeant at his old company, raising the price of one generic drug by 300% since 2011. As far as turning over a new leaf goes, I remain skeptical.

This hearing is not to demonize capitalists or destroy free markets. These hearings are really grappling with the biggest threat to our country...our debt. Which is being driven by healthcare 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 healthcare sector to benefit multimillionaires on the backs of patients and ultimately taxpayers can't continue to happen. A patients as hostages mentality of identifying companies that can be acquired simply by where you can get away with raising prices by the largest percentage has real public policy ramifications. And make no mistake, you can try to dress up this business model with do good sounding phrases but it is simple...give the companies that develop a drug that has little to no competition a healthy profit, fire the scientists, and jack up the prices as high as you think you can get away with. Its using patients as hostages. It's immoral. It hurts real people. It makes Americans very very angry. In case you haven't noticed that has real ramifications in our political process and could lead to an

instability of our government, our economy, and our standing in the world. Pigs get fed, hogs get slaughtered. It's time to slaughter some hogs. I thank the witnesses for being here today, and I look forward to hearing their testimony.