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before the
U.S. Senate Special Committee on Aging

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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.