

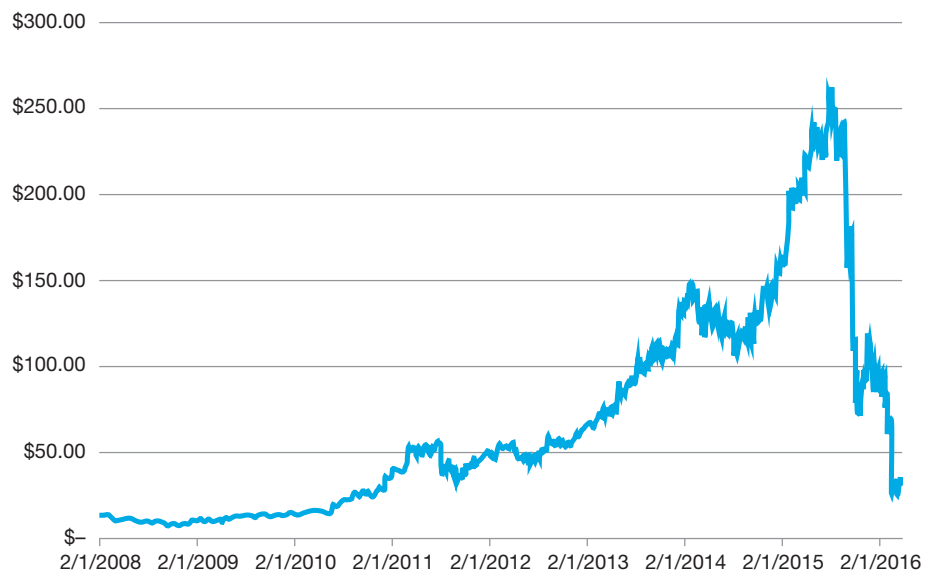
## ICARUS Revisited

### The Rise and Fall of Valeant Pharmaceuticals

Robert Ingram glanced away from his computer screen after checking the stock price of Valeant Pharmaceuticals. As board chairman, Ingram was pleased to see that the stock price had climbed after the announcement of the hiring of new CEO Joseph Papa. Papa replaced Michael Pearson, who had led Valeant through a period of phenomenal growth, and a phenomenal collapse. Valeant had, at one point, lost almost 90 percent of its market value as its stock fell from \$262 per share to a little more than \$26. (**Exhibit 1** displays Valeant's stock price during the Michael Pearson era.) The recent release of the company's long-delayed 2015 financial statements restated its 2014 revenue downward by \$57.5 million; its net income dropped by \$26.8 million. The release of the financial statements eased creditor concerns that Valeant would violate key debt covenants, and Ingram hoped that Valeant could leave its troubled past behind. As he thought about the future direction of the company, Ingram wondered how the board had missed so many signals that Valeant's business model was unsustainable, and many of its business practices were ethically problematic. What changes should be made

**EXHIBIT 1** Valeant (VRX) share price

Valeant's Share Price, 2008–2016



Valeant Stock Highlights			
Date	Closing Price	Date	Closing Price
31-Mar-16	\$ 26.30	31-Dec-13	\$ 117.40
31-Dec-15	\$ 101.65	29-Jun-12	\$ 44.79
30-Sep-15	\$ 178.38	30-Dec-11	\$ 46.69
31-Jul-15	\$ 257.53	30-Jun-11	\$ 51.96
31-Mar-15	\$ 198.62	31-Dec-10	\$ 28.29
31-Dec-14	\$ 143.11	31-Dec-09	\$ 13.96
30-Jun-14	\$ 126.12	31-Dec-08	\$ 9.45

Source: NASDAQ Data, available at <http://charting.nasdaq.com/ext/charts.dll?2-1-14-0-0-5120-03NA00000VRX-&SF:7|5-BG=FFFFFF-BT=0-WD=635-HT=395--XTBL-> accessed April 23, 2016.

to Valeant's governance structure and business strategy to help the company compete both profitably and ethically?

## Valeant Pharmaceuticals

ICN Pharmaceuticals, the company that would become Valeant, enjoyed a storybook birth. ICN started in 1960, its first office the Los Angeles garage of founder Milan Panic. Panic was a former member of the Yugoslavian Olympic cycling team who defected to the United States during the team's 1956 tour. Panic had just \$200 to begin his new life, but from that humble start he was able to attend the University of Southern California and found ICN. The company initially grew by acquiring a niche product to treat dermatological conditions, while it worked on its first home-grown drug. Ribavirin (marketed as Virazole), was an antiviral that treated adults suffering from Hepatitis-C and children with Respiratory Syncytial Virus (RSV). Panic later marketed Ribavirin as a cure for the deadly virus that causes AIDS, a claim that drew formal charges of misleading information from the Securities and Exchange Commission in 1991.<sup>2</sup>

In the early 1990s, Panic moved the company back to his native Yugoslavia. The move allowed ICN to expand into Eastern Europe following the fall of the Iron Curtain. Sales of Virazole provided a foundation for growth, and ICN supplemented its product line through selective acquisitions of both individual drugs and medical devices. ICN grew moderately, and sales exceeded \$500 million by 1996.<sup>3</sup> Panic, always in the limelight, served for a time as Prime Minister of his native country alongside then-President Slobodan Milosevic; however, Panic's flamboyant behavior led to repeated sexual harassment complaints by female employees. Most of these claims were settled out of court, and there appeared to be little appetite inside the company to curb Panic's behavior. When he finally was forced out of the company, Panic drew the ire of shareholders concerned with what many considered to be an overly generous compensation package for a company of ICN's size and profitability.

For its first four decades of life, ICN's board seemed completely happy to follow a strong-willed CEO with a clear vision about where to lead the company, whether that vision led to sustained growth, truthful actions in the marketplace, or violated norms and laws of employee treatment. Panic created his company as a larger-than-life CEO, and a culture of quiescence and deference to the CEO. In 2002, however, a group of activist shareholders forced Panic out of the company, claiming "We believe [Panic's] presence at the helm [of ICN], his dismissive attitude toward shareholders, and his controversial reputation are among the chief reasons ICN's market valuation lags those of its peers and fails to adequately reflect [ICN's] fundamentals."<sup>4</sup> The board hired Robert W. O'Leary to take the helm; O'Leary brought a strong history in health care and medical devices, but also experience in business spin-offs and corporate reorganizations.<sup>5</sup> The board appointed three new directors, and the new leadership team began a comprehensive review of the company's product and business strategies with an eye toward improving shareholder returns.