

On October 21, 2015, Citron Research issued a report on Valeant Pharmaceuticals (VRX) raising questions about possible accounting irregularities and drawing parallels to fraud committed at Enron. Not surprisingly, there was a swift and severe market reaction to the report, which resulted in a significant price decline for VRX.

Because VRX is held by a number of Sabrient Systems' portfolios, we would like to take this opportunity to point out the following:

- The concerns raised by Citron about Valeant, Philidor and R&O Pharmacy came to light as a result of a legal action filed on October 6, 2015 and an article that followed on October 19, 2015 by the Southern Investigative Reporting Foundation (SIRF). These two events took place subsequent to the research conducted on VRX by Sabrient Systems and Gradient Analytics.
- Our research was conducted using information that was publicly available at the time. We found no indications of irregularities in that information.
- In evaluating the Citron report, we note the following problems with the allegations made in that report.
 - If Valeant, Philidor and R&O Pharmacy have colluded with one another, one would not expect one of those parties to file a lawsuit against one of the others, an action that would only draw attention to the relationship.
 - We see no signs of any unusual growth in accounts receivable as would be expected in a case of "phantom sales" or "stuffing the channel." On the contrary, we have actually seen a slight decline in the average days sales outstanding (DSO) from Q1 to Q2.
 - Under Valeant's revenue recognition policy, pharmacy revenue is not recognized until the product is sold to the consumer. Stuffing the channel with sales to specialty pharmacies would not accomplish a boost to revenue.
 - Valeant's allowance for sales returns, discounts and other allowances relative to gross product sales increased over 400 basis points from June 30, 2014 to June 30, 2015. This is not a trend that would be expected from a company attempting to improperly boost sales.
 - Valeant continues to show strong organic growth and free cash flow, both of which are indicators that run contrary to what one would expect in an accounting fraud situation.
- While the allegations made by Citron Research warrant further investigation, Sabrient Systems and Gradient Analytics cannot confirm the allegations and therefore we have not changed our position with respect to VRX. We will, of course, continue to monitor any new developments as they arise and we encourage investors to consult with their financial advisors to determine the suitability of the stock for inclusion in their own personal portfolios.

Opinions expressed are subject to change at any time, are not guaranteed, and should not be considered investment advice. Discussion of a particular security should not be considered a recommendation to purchase or sell that security. Securities discussed do not represent an entire portfolio and in the aggregate represent only a small percentage of a portfolio. It should not be assumed that any securities discussed were or will prove to be profitable.