EARNINGS BUSTERS
A SABRIENT PORTFOLIO

November 4, 2015

Portfolio Announcement

Valeant Pharmaceuticals (VRX) has seen its valuation decline by over 64% over the last three months, primarily due to increased focus on the company's specialty pharma channel and its relationship with specialty pharmacies Philador Rx Services and R&O Pharmacy in particular. Increased regulatory scrutiny relating to the company's drug pricing practices has also continued to weigh on the stock. Despite the material decline in share price, there have not been significant downward revisions in earnings estimates from the sell-side analysts covering the firm. Accordingly, VRX continues to be among the highest rated stocks in our forward-looking GARP model.

From a corporate governance and audit and control perspective, we note that VRX's response to the "phantom revenue" allegations put forth by Citron Research and others appeared to refute these claims, stating that revenue related to the consolidated specialty pharmacies (Philador and R&O) is not booked until the products are dispensed to the end customer, rather than upon shipment to Philador/R&O. Further, we view VRX's greater level of transparency with regard to the specialty pharmacy channel and its decision to formally cut ties with Philador on 10/30/15 as a positive development when viewed from a corporate governance and audit and control perspective.

Valeant's recent revenue recognition disclosures also confirmed our earlier forensic accounting assessment that VRX's key working capital and cash flow accounts appeared healthy and were not indicative of aggressive revenue recognition and/or earnings management. Specifically, we noted the company's robust cash flow generation and receivable levels were not generally consistent with a company that is aggressively recognizing revenue and/or managing earnings.

While we believe that the initial fears concerning alleged accounting irregularities are now dissipating, business risks associated with alleged insurance fraud or other questionable practices, combined with greater scrutiny from U.S. government officials, may continue to weigh on the stock in the near term. Nevertheless, when we balance the downside risks against the upside opportunity for price recovery based on the company's strong fundamentals as measured by our GARP model, we believe that VRX warrants a continuing position as a holding in our Earnings Buster portfolio.

Sabrient will continue to monitor the issues surrounding VRX and assess any potential downside risks should any new information be made public. We will also continue to evaluate VRX's fundamentals within our GARP model, as we do with all the positions in Earnings Busters, and take the appropriate action should we see a detrition of core fundamentals below a level acceptable for the Earnings Busters portfolio. Sabrient Systems does not provide personalized investment advice and we understand that maintaining a position in VRX may not be suitable for all of our subscribers. Accordingly, we encourage our subscribers to speak with their financial advisor to determine the appropriate course of action that fits their risk tolerance and investment objectives.

Full disclosure: Sabrient produces portfolios for UITs and indices that are tracked by ETFs. At any given time, we may have 800 of our top-ranked stocks in one or more of these portfolios. Some of the stocks selected for the Earnings Busters portfolio may also be in one or more of our UITs or indices portfolios.

Editor's Note: *The Sabrient Earnings Busters newsletter is written by Daniel Vickers, analyst at Sabrient. Daniel also assists in the selection of stocks and maintenance of the portfolio. He can be reached at dvickers@gradientanalytics.com*