

## Valeant Pharmaceuticals Shares Drop Following Subpoena by U.S. Officials

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On October 14, 2015, prosecutors from the U.S. Attorney’s Offices for the District of Massachusetts and the Southern District of New York subpoenaed Valeant Pharmaceuticals for details on its patient assistance programs, drug pricing, and distribution practices.

Valeant shares fell following this announcement, closing down 4.7 percent at \$168.87. The shares [stumbled further](#) by 1.2 percent a week later after the company said that it formed a committee to review allegations against the company.

The company is under attack for sharply raising the prices of its drugs, a practice illegal in most developed countries but legal in the U.S. The company defended its practice by mentioning that it hired a consultant to review this aspect of the business. The consultant [found](#) “considerable room to increase the price of both drugs.”

The Pharmaceutical Research & Manufacturers of America (PhRMA, a biopharmaceutical trade group), has taken the very unusual step of [attacking Valeant](#). The trade association argues that Valeant is a “special purpose acquisition company – a shell company created for the purpose of buying other companies.” Specifically, PhRMA points to investments in discovering and developing valued medicines – whereas most pharmaceutical companies invest on average 20 percent of total revenue on R&D, Valeant invests on average less than three percent of its total revenue on this field.

Valeant’s patient assistance programs, a core aspect of the subpoenas, help patients cover the often-expensive co-pay of their medications. However, Erik Gordon, a professor at University of Michigan’s Ross School of Business, [noted](#) they could also be used as “improper inducements to drive up sales.”

Valeant is not the only pharmaceutical company whose shares have recently plummeted. Following Hillary Clinton’s comments on several companies’ price-hiking recent activities (qualified as “industry profiteering” by Clinton), shares of many drug-makers went down.

Guggenheim Partners’ analyst Louise Chen [believes](#) that the federal prosecutors’ inquiries are politically motivated, and that a financial settlement within a few years would be a likely outcome. She stressed that this subpoena does not amount to a lawsuit.

Valeant’s CEO, Pearson, replied with an [official statement](#): “All of us at Valeant firmly believe in maintaining strong regulatory and financial controls and believe we have operated our business in a fully compliant manner. We remain committed to assisting eligible patients who need our products.”