WRITTEN STATEMENT OF
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ON BEHALF OF
VALEANT PHARMACEUTICALS INTERNATIONAL, INC.

BEFORE THE
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

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Chairman Portman, Ranking Member McCaskill, and Members of the Subcommittee, I would like to thank you for the opportunity to appear before you on behalf of Valeant Pharmaceuticals International, Inc. for this hearing regarding the impact of the U.S. tax code on the market for corporate control and jobs. This is clearly an important issue, and I hope that my testimony here today proves helpful in your efforts to understand and address this issue.

I would like to begin with some background information regarding our company to explain who we are, what we do, the principles that guide our operations generally and our approach to corporate acquisitions specifically. Our company and our strategy are often misunderstood, and we appreciate the opportunity to explain a little about how we approach our business and how we have grown so successfully in a relatively short period of time.

Overview of Valeant's Business

Valeant is a global specialty pharmaceuticals and medical devices company. Valeant's operations are highly diversified on both a geographic and therapeutic basis. On a geographic basis we operate in the United States, Canada, Europe, the Middle East, Latin America, Russia, Africa and Asia Pacific. We have a diverse mix of customers throughout these markets, and we are proud to serve patients and customers in both developed and emerging economies. We also have a diversified product portfolio, with a focus on eye health, dermatology, neurology, gastrointestinal health, branded generics and over-the-counter products. We believe that the diversity of our customer base and product mix is a key ingredient of our success and we continue to focus on opportunities to grow our business worldwide wherever we see valuable growth opportunities.

Headquartered in Laval, Quebec, Valeant has approximately 19,500 employees worldwide, approximately 5,700 of whom are based in the United States. In the past five years, as our company has grown rapidly, so has our workforce – growing from approximately 4,300 at the end of 2010 to our current size of approximately 19,500 employees. Our highly talented and committed workforce has been instrumental in our ability to achieve the growth we have experienced. We take great efforts to ensure that we have the most talented, committed, hard-working, and ethical workforce in the industry, and we are extremely proud of what they have accomplished. We recently completed a survey of our worldwide workforce and the results were remarkable – nearly 90 percent of our employees are happy with their positions and are confident that Valeant is on the right track for continued growth, and over 80 percent would recommend Valeant as an employer to their friends and colleagues. With more than three-quarters of our employees participating in the survey, many of whom have joined us through recent acquisitions, the survey results are a testament to the effectiveness of our efforts to integrate acquired companies quickly into Valeant's forward-looking, high-growth culture.

With our extraordinary workforce and strong and growing mix of products, we have been able to achieve remarkable growth in a relatively short period. Over the past five years, our sales have grown from approximately $1.2 billion in 2010 to projected sales of approximately $11 billion in 2015. In that same period, we have grown from a company with a market capitalization of less than $8 billion, to a company with a market capitalization of over $80 billion. We are very proud of the growth we have achieved and the returns that we have been able to provide to our shareholders.

Our growth has been facilitated in large part by our investments in the United States, and we in turn continue to expand our U.S.-based operations, reinvest in our U.S. business, and create good, quality jobs here in the United States. In 2008, Valeant had fewer than 1,000 employees in the United States. Today we have over 5,700. For example, when we purchased Coria Laboratories in 2008 – one of the first acquisitions after our chairman, Mr. Pearson, joined a predecessor of our current company and began to implement the strategy that we still follow today – its dermatology business, including the CeraVe skin care line, had annualized net sales of approximately $40 million and employed a U.S.-based sales force of approximately 40 people. We have grown the CeraVe brand alone from approximately $5 million in annualized net sales at the time of acquisition to what we expect to be approximately $150 million in annualized net sales by the end of 2015, and we have over 300 U.S.-based employees supporting the Coria business.

Valeant has 12 manufacturing sites throughout the United States, with our largest facilities in Rochester, New York; Greenville, South Carolina; Saint Louis, Missouri; Tampa, Florida; and Clearwater, Florida. And we are in the process of expanding our U.S. manufacturing facilities – working with local officials, businesses, and stakeholders to expand our presence and increase our investment in the communities where we operate. For example, we currently employ over 800 full-time people in Rochester, where we focus on advanced manufacturing and R&D. In May of this year, our Rochester facility marked the validation of its first full-commercial high-speed line producing ULTRA contact lenses. The output of this manufacturing line is now four times greater than that of the site's original pilot line. The output from that manufacturing facility will serve not only the U.S. market but foreign markets as well – allowing us to export high-quality, American-made goods while growing our high-quality U.S. workforce in New York and elsewhere. And just two weeks ago we decided to further expand our manufacturing capacity in Rochester, and bring even more skilled jobs to that community. By the end of this year, we expect to have over 900 full-time employees in Rochester, where they will produce more than 200 million Bausch & Lomb ULTRA lenses annually, for sale within and outside of the United States. This is a very different path from what Bausch & Lomb was contemplating prior to Valeant purchasing it, when the intention of the previous management was to move manufacturing from Rochester to Ireland. Valeant remains committed to adding significantly to our manufacturing presence in Rochester. We are also looking to expand our manufacturing facilities in St. Louis, where we presently employ about 414 people who manufacture ophthalmology-related equipment and instruments. Similar to our evaluation of our contact lens manufacturing footprint, we are currently reviewing the consolidation of our surgical manufacturing sites for greater efficiency with the potential to expand our manufacturing capacity in St. Louis in the future.

To be sure, we are a true multinational company. While the United States is our largest market, over the past seven years, we have invested around the world to grow our business. About a third of our most significant transactions since 2008 involved acquisitions outside the United States, as we have expanded our presence in Canada; Latin America; Central, Western, and Eastern Europe; the Middle East and North Africa; and the Asia Pacific region.

We operate in a highly regulated industry. First, our products cannot be marketed until we demonstrate to our regulators that the products are safe and effective for their intended purpose. Second, our manufacturing facilities must strictly comply with requirements designed to ensure that products are made and packaged safely. This applies whether we manufacture the products directly or through third-party contract manufacturers. Third, our sales forces are regulated to ensure that we market and promote our products only for the indications covered by the regulatory approvals. Historically Valeant has had a strong record of compliance with these and other regulatory requirements. Some of the companies we have acquired over the years were subject to corporate integrity agreements that resulted from regulatory failures, and we have worked diligently to resolve past problems and have endeavored to operate in compliance with applicable requirements.

Valeant's Values and Guiding Principles

The growth and success we have been able to achieve at Valeant is rooted – we believe – in the values and core principles that guide all of our business decisions. Our values and core principles provide the overall direction for our company, and provide us with the tools necessary to rise to any challenge by leveraging our collective hard work and effort along with our unwavering competitive spirit. They help us set goals based on our organization's potential and what we hope it will become. We have consistently adhered to these values and principles since Mike Pearson first joined Valeant in 2008, and we continue to believe that they are critical to our future growth.

- *Putting Patients and Customers First through the Highest Ethical Standards in the Industry*

Our first and most important commitment is to the health and safety of the patients and customers who use and rely on our products. To ensure their health and safety we are committed to operating according to the highest ethical standards. Through that commitment we have been able to maintain a record of quality and regulatory compliance of which we are very proud. Our employee surveys show that our employees share that commitment and share the view that Valeant as a company is committed to the highest ethical practices. Valeant has been committed to bringing those same standards of practice to the companies we acquire, and we are proud of our track record of consistently improving the quality and compliance track records of the businesses we acquire.

- *Commitment to Innovation through an Output Driven R&D Approach*

Valeant has a unique – and often misunderstood – approach to innovation and research and development. This approach has its roots in the changes Mr. Pearson made when he first joined Valeant in 2008. At that time, Valeant – like many pharmaceutical companies – was focused on very uncertain, early-stage R&D – spending large sums on R&D with the hope of finding a blockbuster product that could be sold worldwide. That strategy was not working – and Valeant was underperforming as a result.

We changed that approach in 2008, and Valeant began focusing on R&D that we believed could achieve results. We wanted to focus less on how much we spent on R&D and more on what we could get out of our R&D – less on inputs and more on outputs. We did not abandon R&D – but instead focused on those types of R&D where we believed we could achieve results both for our investors and our patients and customers.

We have stated a number of times that innovation is obviously critical to the healthcare industry, and it is also critical to Valeant. We source innovation through our internal research and development efforts, through acquisitions, and through in-licensing. And we are agnostic as to where we get innovation. We do run a focused R&D model, and we are careful about where we build our internal capabilities. We focus on critical skills like trial design, and we outsource commodity activities and leverage industry overcapacity where we can. While we target a certain total amount of R&D spending for each given year, we will spend more or less, as needed, depending on the promise of the programs and the productivity that we believe we can achieve.

This disciplined approach to R&D has borne fruits. As an illustration, in 2009, we acquired Dow Pharmaceuticals Sciences, a research and development company that specialized in creating and developing dermatology products and provided an important R&D platform based in Petaluma, California. We have continued to harness that R&D platform, and after six years we have been able to bring new, innovative products to market. For example, in the past year we launched Jublia – an innovative antifungal product – which after our most recent quarter is generating annualized sales of approximately $450 million, and Onexton – a dual action acne product – which after our most recent quarter is generating annualized sales of approximately $70 million. We also have technology platforms in the form of Victus, Stellaris, and our new ULTRA contact lens. And we look to complement this with outside collaborations.

The results, we believe, speak for themselves. We had 20 product launches in the United States alone last year, and we have a rich pipeline of products sourced from internal development, compounds such as Lumminess and Vesneo from acquisitions such as Bausch & Lomb, and in-licensing products like Croma and Emerade

We intend to maintain this approach to R&D – measuring our R&D not by how much money we spend, but by our ability to achieve results.

- *Decentralized Business Model*

Valeant operates its business units using a decentralized operational model in which individual business units are given control over and held accountable for results within their business unit. This approach empowers our employees to take initiative, be innovative, and take ownership over their work. It also ensures that decisions are made closer to our customers, which usually allows us to make better decisions. This model has allowed us to achieve significant growth in our business units – both those developed internally through organic growth and those we have obtained via acquisitions.

This decentralized business model also allows us to operate our business leanly – with limited "headquarters" staff consisting of the few functions such as finance and compliance that operate on a centralized basis to ensure proper controls. Rapidly integrating acquired businesses into our model is a key to our success and one of the drivers of our ability to realize synergies and value through corporate acquisitions.

- *Disciplined Approach to Business Development with a Focus on High Rates of Return and Rapid Payback Periods*

Finally, a disciplined approach to business development, with a focus on achieving high rates of return and rapid payback for our shareholders has been a key driver of our growth, which I will discuss in greater detail below.

In summary, over the past seven years, we have pursued a unique business strategy that has combined rapid growth with the highest standards of ethical business practice to achieve remarkable results for our customers, patients, employees and shareholders. This is not to say that we have not made mistakes or that every decision we have made has paid off. But overall, we have achieved a remarkably high success rate that has fueled our tremendous growth.

Valeant's Approach to Business Development

Along with organic growth, growth through acquisitions has been an important part of Valeant's business model, and we anticipate that business development will continue to be an important part of our story going forward. Since 2008, we have completed approximately 140 transactions, and we are continually looking for new opportunities to grow our business and deliver superior returns to our shareholders.

Our approach to business development is guided by several core principles.

First and foremost, we only pursue transactions that make strategic, business sense for Valeant. We thus generally look for companies with products in therapeutic segments that complement our existing product portfolio and are consistent with our goal of focusing on high-growth areas. When we see an opportunity to acquire a business that we think is underperforming, we will do so if it makes sense for our shareholders. Approximately three-quarters of our product portfolio tend to be products that are directly paid or reimbursed through private insurance, and are not heavily reliant on managed care or government reimbursement.

We have a preference for such products because it limits our exposure to changes in government regulations or third-party payers' reimbursement policies that could reduce reimbursement for our products, and thereby adversely impact our results. If a potential acquisition target meets those criteria, but is a company that has struggled financially, faced regulatory problems, or otherwise faced challenges, Valeant is not afraid to take a chance on success. If a potential acquisition target has promising products that for one reason or another have not realized their full potential, we believe we are often uniquely positioned to deploy our management and business strategy to realize that value and grow those businesses to provide superior returns to our shareholders.

Second, we take a financially disciplined approach to business development looking for opportunities where our decentralized and efficient business model can achieve returns that are far in excess of our own cost of capital. When evaluating acquisitions we assess a broad range of factors, and generally seek to achieve a 20 percent internal rate of return on our investment and a payback period of six years or less, based on applying the statutory tax rates to the projected future earnings of the potential acquisition target. Of course, these are guidelines – not hard and fast rules – and every acquisition involves a significant element of judgment on the part of our senior leadership or board. But these financial guidelines have allowed us to stay disciplined in our acquisition strategy, and we are proud that – while not every acquisition has paid off – overall our strategy has succeeded, and on the whole we have surpassed these financial targets.

Related to this principle, we generally do not participate in M&A auctions. Most of our acquisitions have involved private companies that were not in the process of being "auctioned off" to the highest bidder. Of course, in some instances, our interest in a company has provoked a bidding situation. But when that has occurred, we have remained disciplined – completing acquisitions only when they made sense for us, and abandoning them when they do not. To that end, we have walked away from acquisition opportunities when we did not believe that they made sense for our company. For example, we abandoned efforts to acquire the specialty drug maker Cephalon when Teva raised its bid to a price that we thought no longer justified our acquisition of the company. Similarly, we abandoned efforts to acquire ISTA Pharmaceuticals, a U.S.-based ophthalmology company, that was ultimately acquired by Bausch & Lomb in 2012, when the transaction could not be completed on a favorable timetable. And most recently, we abandoned our efforts to acquire Allergan when Actavis offered a price for Allergan that we thought did not make sense for us given the returns we aim to earn from our acquisitions.

Finally, to realize the potential from our acquisitions, we move swiftly to integrate the acquired business into Valeant's decentralized operating model. Like with all corporate M&A, that often involves the elimination of certain types of jobs – generally administrative and headquarter-type positions – where there is duplication across the newly-combined businesses. But our ultimate goal is to grow the businesses we acquire, and as we grow those businesses we add manufacturing jobs and sales personnel to serve our growing businesses. As noted above, our workforce survey confirms that our employees have a high degree of job satisfaction. And our data prove this, with the average tenure of our U.S.-based hourly employees, who take home an average salary of about $41,100, at 11 years, and the average tenure of our U.S.-based salaried employees, who take home an average salary of about $105,400, at 6 years.

Our consistent adherence to these core principles is evidenced in the most significant transactions we have completed in the past five years.

The first such transaction was the 2010 combination of Valeant and Biovail that gave birth to Valeant as it exists today. In that transaction, legacy Valeant, a U.S. company, undertook a merger of equals with Biovail, a Canadian company. Biovail acquired legacy Valeant, with Biovail's shareholders receiving slightly more than half of the shares of the combined company, and Valeant's shareholders receiving slightly less than half. Although Biovail acquired Valeant, the board of the combined company decided to adopt Valeant's name in part due to reputational challenges experienced by Biovail. Given the success of legacy Valeant to that point and the approach and experience of legacy Valeant's management, legacy Valeant's senior management was retained to lead the combined company. This was a transformative merger that provided the combined company with the scale, financial strength and complementary product lines to pursue substantial growth opportunities. With Biovail acquiring legacy Valeant, the combined company was able to enjoy the benefits of Biovail's more efficient operating structure, as a Canadian company with a significantly lower effective tax rate. But this was not an "inversion" where a large U.S. company expatriates for no real reason other than to lighten its tax burden. Both companies had compelling strategic reasons for this merger. By combining Biovail and legacy Valeant, we were able to build on the strengths of each company and leverage our complementary product lines due to overlapping product areas in overlapping geographies, allowing us to deliver double-digit top and bottom line growth for our combined shareholder base. For example, both Biovail and legacy Valeant had Canadian businesses of about $100 million in revenues, and by bringing those businesses together and at the same time eliminating redundancies to achieve significant cost synergies, we were able to turbo charge the growth of our combined Canadian platform. In the United States, Biovail and legacy Valeant both focused on the neurology and dermatology markets, further supporting the strategic rationale for a merger that would result in a stronger and better positioned combined company that would compete in areas where both companies had pre-existing presences.

Shortly after Biovail acquired legacy Valeant, we completed two significant transactions in 2011 that expanded our European footprint. The acquisitions of PharmaSwiss, which was headquartered in Switzerland, and Sanitas Group, which was headquartered in Lithuania, helped to position Valeant as a leading pharmaceutical company in central and eastern Europe – a region that we viewed as prime for rapid growth. Both companies had strong generics portfolios, and as we integrated our pre-existing European business with these acquired businesses, we strengthened our presence in those important markets.

In 2012, we acquired Medicis Pharmaceutical Corporation. That acquisition was driven by our desire to expand our dermatology and aesthetics product portfolio, building upon Valeant's existing dermatology business and the research capabilities acquired in the Dow acquisition. We have long had the view that the market for dermatology products, which often are direct purchase products not subject to managed care and government-based reimbursement systems, is a high-growth business segment that would support the long-term growth of our company. In Medicis, we saw a business that was underperforming. We exceeded our synergy projections, accelerated the growth of core and under-focused products, like Ammonul, Zyclara and Vanos, and captured upside from pipeline products like Luzu that were not built into our deal model. Moreover, as we have with many of our transactions, we retained key organizational talent and expertise that has helped us grow our overall business.

In 2013, we acquired Bausch & Lomb from a private equity firm – an acquisition that provided Valeant an opportunity to become a leading global ophthalmology company. In a relatively short time we have realized our goal of substantially enhancing the growth of the Bausch & Lomb business. When we acquired Bausch & Lomb, it was growing at a rate of approximately two percent. We are now achieving growth rates of approximately nine percent. And to ensure that our manufacturing capabilities keep up with demand, we are in the process of expanding Bausch & Lomb's manufacturing presence both here in the United States and in Ireland, growing our Bausch & Lomb-related workforce by adding more shifts and more jobs at our manufacturing facilities in Rochester and Waterford. These are precisely the types of business opportunities Valeant looks for when pursuing acquisitions, and it is very gratifying when we are able to over-deliver, as we have in the case of Bausch & Lomb.

Finally, and most recently, in early 2015 we completed the acquisition of Salix Pharmaceuticals. With this acquisition we were able to expand our therapeutic mix into gastrointestinal products, which we viewed as a growing area. And we were able to complete the acquisition at a favorable price, significantly less than others had offered just six months earlier. While it is too soon to report on the results of this acquisition, we are moving swiftly to integrate Salix into our business model, and we are optimistic that Salix will offer yet another example of a successful transaction that is helping to expand our business and provide superior returns for our shareholders.

In sum, our approach to business development has remained unchanged over the course of the past five years. We look for strategic business opportunities in growing market segments that involve acquisition targets where we think our business model can deliver significant value by enhancing the value of assets that for a variety of business reasons are under-utilized. We bring a rigorous and disciplined approach to all of our business development activity, pursuing only those opportunities that can offer us a high rate of return and rapid payback, and abandoning potential acquisitions when they no longer fit that bill. And once completed, we move swiftly to integrate those businesses into our decentralized business model that eliminates inefficiencies and fosters the growth of our acquired businesses.

The results of our strategy speak for themselves. We have deployed over $35 billion in capital in the business development transactions we have undertaken since 2008, and on an aggregate basis we have consistently exceeded our projections for both earnings and net income. While not every transaction has been a success, the largest transactions have all either been in line with or have exceeded our deal models. Across the board, the majority of our transactions are delivering above our targeted 20 percent internal rate of return, and most are returning above our cost of capital. This is good news for our employees and our shareholders.

Role of Tax Synergies in Business Development Decisions

Valeant does not take into account tax synergies in either identifying or pricing potential acquisition targets. When we perform our financial analysis of a potential transaction, we evaluate whether we believe that we can achieve our targeted 20 percent internal rate of return and six-year payback period by applying the statutory tax rates to our projections of the earnings of the target company or the assets that we are considering acquiring. We do not value proposed transactions based on the ability to achieve tax synergies and we do not pay higher prices to the sellers based on our ability to achieve tax synergies. To the extent we are able to achieve tax synergies through the integration of new businesses into our structure we believe that the benefit of those synergies should be retained for the benefit of Valeant's shareholders.

Of course, we recognize that there are tax synergies that can be achieved by integrating newly-acquired companies into our operating structure. But those synergies – to the extent they are realized – redound to the benefit of our shareholders. We do not share those tax synergies with the shareholders of companies that we acquire by paying a premium to those shareholders. That is also part of the reason why we tend to pay cash for our acquisitions; we do not like to dilute our equity by issuing new shares for each transaction. By borrowing judiciously, and using cashflow from the cost and other synergies we achieve when integrating the acquired businesses to repay debt promptly, we have been able to grow our business while providing consistently high returns to our shareholders.

In the same vein, when we decide from time to time to divest a particular business, we only do so if the divestiture makes sense to our company and for our shareholders. When we evaluate such transactions, we compare the price that a potential acquirer may be offering to the value that we can derive from the business within our corporate structure. If the potential acquirer operates in a model where they are subject to higher taxes, that means that they will need to pay us a sufficient premium to convince us to divest the business under consideration.

In connection with each major transaction that we have undertaken, we publicly disclose our efforts to integrate the acquired business into Valeant's overall structure, and we detail the anticipated synergies we expect to achieve as a result. Our disclosures typically focus on back-office workforce reductions, closing of duplicative sales offices and corporate facilities and other site rationalization actions, leveraging R&D spending, and making effective use of shared services and procurement savings. Our typical disclosures will quantify the cost synergies without regard to potential revenue synergies or the potential benefits of expanding our corporate structure to the acquired company's operations.

We realize that our approach to the role of tax synergies in M&A transactions may not be universal and that other companies may approach tax synergies differently, taking them into account in determining whether and at what price to pursue a transaction. But that is not the approach we have taken at Valeant and it is not an approach that we intend to pursue in the future. We believe that our approach to tax synergies in business development transactions – i.e., *not* taking them into account in our evaluation of M&A opportunities – has served our company and our shareholders well and we intend to continue with that approach.

Approach to Tax Synergies

As noted above, we of course appreciate that there are tax synergies to be realized through the integration of newly-acquired businesses into our structure. Those benefits generally derive from two sources – our use of debt to finance our acquisitions and our integration of the intellectual property of the acquired companies into our corporate structure.

With regard to debt financing, we often rely on third-party borrowing to finance our acquisitions. We do so because we have great confidence in the future of our company and we believe that we can offer a better return to our shareholders by using debt financing, rather than equity financing, to fund our acquisitions. Stated differently, if we believe that a business development opportunity is going to help increase the value of our shares, our strong preference is to extend that value to our shareholders, not the shareholders of the company we are acquiring. We presently have approximately $32 billion of outstanding third-party debt, almost half of which was incurred earlier this year to finance the acquisition of Salix.

This borrowing does, in turn, provide a tax benefit in the form of deductible interest expense paid by U.S. entities within our corporate group. Our U.S. affiliates have approximately $20 billion of indebtedness, some of which is through direct third-party borrowing, and some of which is through intercompany borrowing in which our Canadian parent company has borrowed funds from third-parties and on-loaned those funds, either directly or through affiliates, to our U.S. affiliates to fund acquisitions – as was the case with the recent acquisition of Salix.

The bias that the U.S. tax code – like many tax codes – provides in favor of debt financing (as compared to equity financing) is well known and is certainly not unique to non-U.S. parented companies like Valeant. But it is a feature of the tax system that we benefit from – and that provides us with tax synergies in the context of acquisitions given our preference for financing those acquisitions with debt. Unlike some other foreign based companies, however, our intercompany lending is almost always tied to particular transactions.

With regard to intangible planning, it is important to note that, like all pharmaceutical companies, our intellectual property portfolio is one of our most valued assets, and a major source of the returns we earn for our shareholders. We think very carefully about where to hold our intellectual property, where to fund the ongoing development of that intellectual property, and where to locate the attendant functions related to the commercialization of our products that embody that intellectual property. The applicable tax rates in various jurisdictions are of course a key consideration in the decisions we make regarding where to hold our intellectual property portfolio. Our team has invested significant thought into these types of questions, and each time we complete an acquisition, they move quickly to integrate the acquired business into our intellectual property ownership structure. These integration efforts are part and parcel of the overall process of combining the acquired business with our existing businesses, and are critical to the long-term success of any acquisition.

As a general matter, while I am certainly no tax expert, I am told that we have the same strategies available to us that generally are available to all multinational companies – whether U.S.- or foreign-parented. As with all U.S. companies, if and when we decide to transfer intellectual property from a U.S. member of our corporate group to an affiliate outside of the United States, we must do so at fair market value and pay tax, either upfront or over time, associated with the value of the intellectual property or the income that results from exploiting it. In contrast to U.S. multinationals though, because Valeant is a Canadian company, we have the ability to more efficiently access earnings associated with the foreign intellectual property ownership given Canada's territorial tax system as compared to the U.S. worldwide regime. This means that we can deploy our foreign earnings where we need to, including in the United States, without paying a toll charge to access those earnings. As I understand it, the intellectual property planning that Valeant employs does involve a trade-off. To the extent that we move the ownership and ongoing development of intellectual property outside of the United States, the costs associated with that development are not borne in the United States and thus are not tax deductible here. If those development efforts do not pay off, not only do we not realize tax savings, but we actually suffer a tax cost due to lost tax deductions.

Finally, while we, like most other non-U.S. multinationals, have greater flexibility in accessing earnings of our foreign affiliates, I should note that accessing the historic foreign earnings of companies we have acquired has not been a material feature of the tax synergies related to the transactions we have undertaken.

Savings Realized Through Tax Synergies

A key facet of Valeant's acquisition strategy is to swiftly integrate the acquired company with our existing business and structure. Because intellectual property tends to be a major component of value of the businesses we acquire, the post-acquisition integration efforts we have undertaken often involve migrating the risks and rewards associated with intellectual property rights within our corporate structure so that we can maximize the returns on those intellectual property rights for our shareholders.

For example, after we acquired Medicis in December 2012, we licensed all of the legacy Medicis intellectual property rights to our Canadian parent company in exchange for an arm's-length royalty, and then migrated many of those rights from Canada to Ireland. These transactions shifted the future risk of developing the acquired intellectual property outside of the United States, but at the cost of the royalties that were required to be paid back to our U.S. consolidated group.

The Bausch & Lomb transaction was our largest acquisition at the time, and our team used the integration process to establish an Irish affiliate as a principal company responsible for ongoing development and exploitation of Valeant's overall intellectual property portfolio. Specifically, a number of existing Valeant assets and entities were contributed to an Irish affiliate, and the legacy Bausch & Lomb intellectual property, together with other Valeant intellectual property, including the legacy Medicis intellectual property rights, was contributed into that same Irish principal company. Going forward, the Irish principal company and other Irish affiliates within the Valeant group contract with affiliates or third parties to manufacture products using its intellectual property rights, and contracts with affiliates to distribute those products in the markets in which we operate.

Building on the structure put in place following our Bausch &Lomb acquisition, we expect that Salix and certain Salix affiliates will license their intellectual property to our Irish principal company in exchange for royalty payments based on the sales of the licensed products. As with the other intellectual property held by our Irish principal company, it is that entity that will bear the costs and risks associated with the ongoing development and commercial exploitation of that intellectual property.

For each of these integration exercises, while we projected the possibility of significant savings, the ability to achieve those savings in each instance depended on the success of the business, which given the business we are in is always an uncertain proposition. As noted above, projected tax savings of this sort are not factored in the price that we agree to pay to acquire a company. And once we implement the integration planning, we do not track what our taxable income might have been had we not undertaken those steps. Rather, once we integrate a company into our structure we simply have a new overall tax rate for the combined companies and we evaluate the performance of the newly-acquired business based on its growth and taking into account that new, combined effective tax rate.

Views on Corporate Tax Reform

I am a former investment banker and have devoted most of my career to advising clients on the allocation of capital and strategic transactions. I am not a tax expert, and cannot speak to the specifics of any particular aspect of tax reform. Nor can I say that Valeant – as a company – has developed any particular views regarding U.S. corporate tax reform.

That said, I can speak to those features of the Canadian tax system which we, as a Canadian company, have found conducive to our growth and success in the highly competitive, global pharmaceuticals industry.

First, Canada has a tax rate that is in line with many other developed countries. The Canadian federal corporate tax rate is 15 percent, and the provincial tax rates range from 3 to 16 percent. For Valeant, given where we operate in Canada, our blended statutory tax rate in Canada is about 26.2 percent, as compared to the combined federal and state statutory tax rate of approximately 36 percent that we face in the United States.

Second, Canada, like most other developed countries, has a territorial tax system in which Canada taxes corporations on their Canadian income but not on the non-Canadian income earned by non-Canadian subsidiaries. We therefore do not face a Canadian "toll charge" when we repatriate earnings to our Canadian parent. This allows us to efficiently access and deploy capital throughout our corporate group, including in the United States, without facing the prospect of having "trapped cash" that, for tax reasons, cannot be put to its highest and best use.

Third, like most other developed countries, Canada has a controlled foreign corporation regime under which some types of non-Canadian income earned by our non-Canadian subsidiaries will be taxed in Canada. But the Canadian CFC rules are narrowly crafted to prevent specific abuses and do not operate to subject broad swaths of non-Canadian income to Canadian taxation, nor do they meaningfully interfere with our preferred business operating model. Taken together with its territorial tax regime, this feature of the Canadian tax system, which I understand is broadly consistent with the corporate tax systems used by most developed economies other than the United States, make Canada a favorable headquarters location for a global pharmaceuticals company like Valeant.

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Thank you again for the opportunity to appear before the Subcommittee today. I would be pleased to try to answer any questions that you may have regarding the topics addressed in my testimony.