US: Valeant Pharmaceuticals’ price-gouging strategy

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Following the widely reported case of price-gouging by Martin Shkreli of Turing Pharmaceuticals, this weekend the *New York Times* highlighted the parasitic corporate strategy of another drug company, Valeant Pharmaceuticals. The company buys drugs from other pharmaceutical companies, or acquires the companies themselves, and then jacks up the prices, enriching Valeant’s shareholders.

Valeant has dramatically raised the prices of a number of its drugs in recent years. The price of the blood-clotting drug Mephyton, for example, has been raised eight times since July 2014, from $9.37 a tablet to $58.76; likewise, the price of the diuretic Edecrin has been increased nine times since May 2014, from $470 a vial to $4,600.

Other examples include:

- Syprine (acquired by Valeant in 2010), a treatment for Wilson disease, went from $1,395 in 2013 to $21,267 in 2015 (an increase of 1425 percent).
- Cuprimine (2010), another treatment for Wilson disease, went from $888 in 2013 to $26,189 in 2015 (an increase of 2849 percent).
- Glumetza (2015), a treatment for diabetes, went from $896 in 2013 to $10,020 in 2015 (an increase of 1016 percent).
- Isuprel (2015), a treatment for slow or irregular heart rate, went from $4,489 in 2013 to $36,811 in 2015 (an increase of 720 percent).

“This year alone,” notes the *Times*, “Valeant raised prices on its brand-name drugs an average of 66 percent, according to a Deutsche Bank analysis, about five times as much as its closest industry peers.”

House Democrats are currently seeking a subpoena to force Valeant to turn over documents related to the two heart drugs, Isuprel and Nitropress, it purchased from Marathon Pharmaceuticals in February and then significantly hiked the prices. According to a letter from Senator Bernie Sanders, Marathon itself had increased the prices of the two drugs by nearly 400 percent after acquiring them from the drug company Hospira.

US workers, who have witnessed decades of stagnant wages, face an increasingly untenable situation that threatens their health. The *Times* interviewed Bruce Mannes, a 68-year-old retired carpenter, and his wife Susan. Mannes takes Valeant’s Cuprimine to treat Wilson disease, which can cause severe liver and nerve damage. As late as this past May, he was paying $366 a month out of pocket. With the recent price hike, he will now have to pay $1,800 a month, while Medicare will cover the remaining $35,000. His wife has been forced to take on a second part-time job to cover the extra costs. “My husband will die without the medicine,” she said.

Doctors are similarly outraged. “I am still feeling quite traumatized by what happened to my patients and I feel traumatized for patients in similar situations,” Dr. Eve Roberts, a former liver specialist at the University of Toronto, told Canada’s CBC. Valeant attempted to hike the price of Syprine in Canada in 2014 to match US prices, but relented after vocal opposition from liver and gastrointestinal specialists.

Valeant responded to the criticism by stating it “prices its treatments based on a range of factors, including clinical benefits and the value they bring to patients, physicians, payers and society.” However, Valeant CEO J. Michael Pearson has been up front that his primary duty is to line the pockets of himself and his company’s shareholders, stating at an April stockholder conference that if “products are mispriced and there’s an opportunity, we will act appropriately in terms of doing what I assume our shareholders would like us to do."

Valeant's predecessor company, ICN pharmaceuticals, was established in 1960 in California by Milan Panic, according to an extensive profile of Valeant in Canada's *Globe and Mail* in 2013. Under Panic's tenure as CEO, the company was repeatedly fined between the 1970s and 1990s for making unwarranted claims about its drug ribavirin and misleading shareholders and investors, while Panic himself was the subject of a number of sexual harassment suits.

Robert O'Leary replaced Panic as CEO in 2002, and the company changed its name to Valeant. In 2010, the company merged with Biovail, a Canadian pharmaceutical company that had been sued two years prior by the Securities and Exchange Commission for fraudulent accounting schemes and misleading investors, paying a fine of $10 million.

The merger allowed Valeant to free itself from US taxes and take advantage of tax-lowering rules in Canada—now paying an overall cash tax rate of less than 5 percent—even though most of its operations are located in New Jersey. The company changed its name to Valeant Pharmaceuticals International and reported revenues of $8.25 billion in 2014.

Pearson, the company's current CEO, joined Valeant in 2008 after leaving the management consulting firm McKinsey & Company. Pearson directed the company to gut its research and development spending and replace it with a focus on mergers and acquisitions. "We had a premise that most R&D didn't give good return to shareholders," said Pearson. According to the *Times*' exposé, Valeant now spends an amount equivalent to 3 percent of its sales on R&D.

Pearson's strategy has been to take over drug companies, slash jobs and costs, and then hike up the prices of the acquired drugs to make a hefty profit. According to a CNBC article last month, over the last five years the company's stock has risen 850 percent and has a market value of $77 billion—although its stock, along with biotech and pharma stocks in general, have recently fallen due to rumblings of possible government intervention by Democratic presidential candidates in the aftermath of the price-gouging scandal of Martin Shkreli.

"Valeant is the product of cynicism that doubles, as is frequently the case, as a brilliant business model," observed a 2014 *Times* article. "It's a drug company that doesn't develop drugs. Instead, it runs a serial takeover operation, furiously buying companies and products to propel its growth."

The *Globe and Mail* reported this summer that Pearson earned a $1 million salary with $3 million in cash bonuses in 2014. However, this is dwarfed by his stock options in the company, which are estimated to be worth nearly $3 billion.

While the *Times* doesn't draw the connection, the cases of both Shkreli and Valeant Pharmaceuticals are entirely in line with the overall strategy of the ruling class in the US—spearheaded by the Obama adminsitration—to cut health care costs and subordinate the provision of care to the profit intersts of the giant pharmaceuticals and insurance companies. It is another example of the disastrous consequences of a health care system based on capitalism.