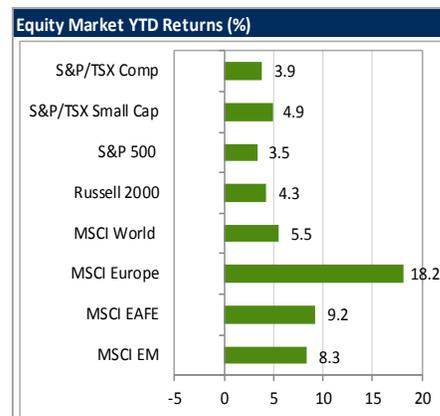


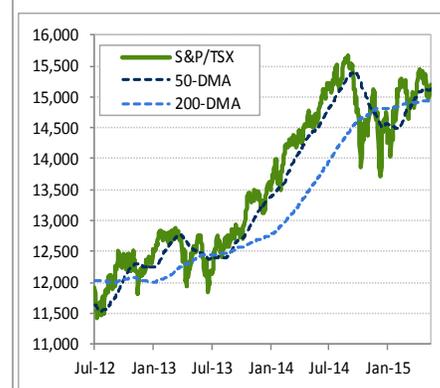
Mea Culpa. Upgrading Health Care Sector To Market Weight

- The Canadian health care sector has been the top performer year-to-date (YTD), up 60%. While we've been bullish on the US health care sector for some time, we recommended an underweight in the Canadian health care sector coming into the year given the lack of breadth and depth in the sector.
- The S&P/TSX health care sector is essentially one company – Valeant Pharmaceutical Inc. (VRX-T) – which represents an 85% weight in the S&P/TSX Health Care Index. As such, a call on the health sector in Canada is largely a call on Valeant Pharmaceutical Inc.
- We have recently turned more constructive on Valeant, adding the stock to our Raymond James Canadian Growth Guided Portfolio on May 1, 2015. Despite the stock up 9% since we added the position, we still see the potential for further upside. With us becoming more constructive on VRX, we believe it's prudent to upgrade the sector to market weight, given the company's dominance in the index.



Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	6.6	Overweight
Consumer Staples	3.6	Market weight
Energy	21.0	Market weight
Financials	34.9	Market weight
Health Care	5.8	Market weight ↑
Industrials	7.9	Overweight
Information Technology	2.4	Overweight
Materials	11.1	Underweight
Telecom	4.7	Market weight
Utilities	2.1	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	15,196.0	
50-DMA	15,116.8	Uptrend
200-DMA	14,918.2	Uptrend
RSI (14-day)	44.8	Neutral



Source: Bloomberg, Raymond James Ltd.

Chart of the Week

A Call On Valeant = A Call On The S&P/TSX Health Care Sector



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 4

Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2.

2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

Upgrading Health Care Sector To Market Weight

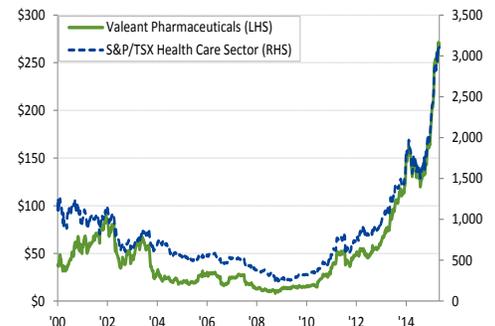
The Canadian health care sector has been the top performer YTD, up 60%. While we've been bullish on the US health care sector for some time, we recommended an underweight in the Canadian health care sector coming into the year given the lack of breadth and depth in the sector. Indeed, within the S&P/TSX Health Care Index there are only five companies, with the sector representing just a 5% weight in the S&P/TSX Composite Index (S&P/TSX). With the recently announced acquisition of Catamaran Corp. (CCT-T) by UnitedHealth Group Inc. (UNH-N), the S&P/TSX Health Care Index is set to become even narrower.

The S&P/TSX health care sector is essentially one company – Valeant Pharmaceutical Inc. (VRX-T) – which represents an 85% weight in the S&P/TSX Health Care Index. Valeant's dominance in the index is illustrated in the attendant chart, which captures the strong correlation between the stock and the health care index. As such, a call on the health sector in Canada is largely a call on Valeant Pharmaceutical Inc.

We have recently turned more constructive on Valeant, adding the stock to our Raymond James Canadian Growth Guided Portfolio on May 1, 2015. Despite the stock up 9% since we've added the position, we still see the potential for further upside. With us becoming more constructive on VRX, we believe it's prudent to upgrade the sector to market weight, given the company's dominance in the index. Our bullish view on VRX is predicated on the following factors:

- **Strong Q1/15 results.** VRX easily topped analysts' EPS and revenue expectations amid same store sales organic growth of 15%. In addition, management raised their full-year earnings and revenue guidance above the Street view.
- **Accretive acquisitions.** VRX has grown primarily through acquisitions, having closed 19 deals over the past five years. Management has been a disciplined acquirer ensuring targets generate a minimum of 20% return over the first six years. The company's recent acquisitions of Salix (gastrointestinal-focused) for US\$14.5 bln and Dendreon Corp (prostate cancer product) for US\$450 mln adds to a portfolio of dermatology products (PreCision Dermatology acquisition for US\$475 mln) and eyesight product portfolio (Bausch + Lomb for US\$8.7 bln).
- **Strong organic growth.** While VRX has grown through acquisition it has also displayed a very impressive organic growth rate. The company launched 20 new products in 2014 within their dermatology, contact lenses, surgical and consumer segments backed by extensive professional education and outreach programs, a strong sales force and robust marketing campaign. Further, by building out existing platforms, introducing new platforms in fast growing markets in Asia, Middle East and Latin America as well as raising prices, the company delivered 16% organic growth in Q4/14. The company's current pipeline comprises of 7 products (6 in their eye health category and 1 in oral health) with an expected launch year of 2016. Management indicated that the company's 2015E organic growth will be over 10%.
- **Attractive fundamentals.** VRX has consistently grown their operating cash flow over the past three years, driven by accretive acquisitions and strong organic growth. The company's asset turnover has also been improving, illustrating the company's efficiency in using its acquired assets to generate sales. Over the past two years, VRX significantly expanded its gross margin

Canadian Health Care Sector Is Largely Driven By Valeant



Source: Bloomberg, Raymond James Ltd.

from 67% in 2013 to 72.7% in 2014. In addition, the company's leverage position has improved from 61.4% long-term debt to total assets in 2013 to 57.9% in 2014.

- **Valuation.** From a valuation perspective, VRX trades at 18.4x 2016 consensus EPS estimates and is anticipated to have EPS growth of 37% in 2015 and 33% in 2016.

Conclusion

We underestimated the potential upside in Valeant Pharmaceuticals, and in turn, the S&P/TSX health care sector. Mea culpa! We are righting this wrong, and upgrading the sector to market weight given our more constructive stance on VRX. Despite the strong gains in the stock we see the potential for further appreciation driven by EPS growth.

Important Investor Disclosures

Complete disclosures for companies covered by Raymond James can be viewed at: www.raymondjames.ca/researchdisclosures.

This newsletter is prepared by the Private Client Services team (PCS) of Raymond James Ltd. (RJL) for distribution to RJL's retail clients. It is not a product of the Research Department of RJL.

All opinions and recommendations reflect the judgement of the author at this date and are subject to change. The author's recommendations may be based on technical analysis and may or may not take into account information contained in fundamental research reports published by RJL or its affiliates. Information is from sources believed to be reliable but accuracy cannot be guaranteed. It is for informational purposes only. It is not meant to provide legal or tax advice; as each situation is different, individuals should seek advice based on their circumstances. Nor is it an offer to sell or the solicitation of an offer to buy any securities. It is intended for distribution only in those jurisdictions where RJL is registered. RJL, its officers, directors, agents, employees and families may from time to time hold long or short positions in the securities mentioned herein and may engage in transactions contrary to the conclusions in this newsletter. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this newsletter. Securities offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Financial planning and insurance offered through Raymond James Financial Planning Ltd., not a Member-Canadian Investor Protection Fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs relating to investing in these stocks will affect overall performance.

Information regarding High, Medium, and Low risk securities is available from your Financial Advisor.

RJL is a member of Canadian Investor Protection Fund. ©2015 Raymond James Ltd.