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BAUSCH HEALTH: Can BHC Execute a Drop Down Transaction to Refinance BHC First Lien Bonds?

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Bausch Health: Can BHC Execute a Drop Down Transaction to Refinance BHC First Lien Bonds?

The Bottom Line™:

- Last year, Bausch Health incurred new secured bonds and loans through one of its numberco subsidiaries.
- The new debt included provisions allowing for an additional \$1.6 billion of debt either in the form of “Incremental Debt” or “Drop Down Debt.”
- The Company used the Incremental Debt option in December 2025 to issue \$1.6 billion of additional numberco bonds.
- Bausch Health has approximately \$1.69 billion of first lien bonds maturing in 2028, and subscribers have asked whether Bausch Health can structure a “drop down” transaction to refinance this debt under the numberco bonds and loans.
- Since the carveouts allowed up to \$1.6 billion in either Incremental Debt or Drop Down Debt, the option to issue “Drop Down Debt” in the form contemplated by the numberco bonds and loans is no longer available.
- However, the fact that the “Drop Down Debt” option is no longer available does not preclude BHC from entering into a conceptually similar “drop down” transaction, if other capacity to incur and secure the applicable debt is available under the numberco bonds and loans. We examine this scenario in this report.

Overview

Last year, a subsidiary of Bausch Health Companies Inc. (“BHC” or the “Company”) issued the new NumberCo Notes and incurred debt under a new NumberCo Credit Agreement (each as defined below) to refinance existing debt. Since then, questions have swirled around what options remain for the Company to structure additional refinancing transactions to address upcoming secured bond maturities.

The NumberCo Notes and NumberCo Credit Agreement built in the ability for the Company to issue an additional \$1.6 billion of secured debt as either “Incremental Debt” or “Drop Down Debt.” On December 26, 2025, the NumberCo Issuer used the Incremental Debt option to issue \$1.6 billion of additional NumberCo Notes, seemingly closing off the option to issue Drop Down Debt.

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The Company has approximately \$1.69 billion of first lien bonds maturing in 2028, and subscribers have asked whether the Company can structure a “drop down” transaction to refinance this first lien debt under the NumberCo bonds and loans.

In this report, we explore whether the Company is able to execute a conceptually similar (but not identical) drop down transaction to refinance first lien bonds due in 2028.

A Brief Refresher on the Company’s Capital Structure

As of December 31, 2025, the Company had approximately \$6.1 billion of bonds issued by Bausch Health Companies Inc., which we detail later in this report. In this report, we collectively refer to these legacy bonds of BHC as the “BHC Bonds.”

In April 2025, the Company’s wholly-owned indirect subsidiary, 1261229 B.C. Ltd. (the “NumberCo Issuer” or the “NumberCo Borrower”) issued \$4.4 billion of 10% Senior Secured Notes due 2032 (the “NumberCo Notes”). The NumberCo Notes were issued under an April 8, 2025 Indenture (the “NumberCo Notes Indenture”). On December 26, 2025, the NumberCo Issuer issued \$1.6 billion of additional NumberCo Notes under the NumberCo Notes Indenture.¹

The NumberCo Notes are guaranteed by (1) the NumberCo Issuer’s parent, 1530065 B.C. Ltd. (“153 NumberCo”), and 153 NumberCo’s Restricted Subsidiaries (together with the NumberCo Issuer, the “NumberCo Issuer Group”) and (2) BHC and its Restricted Subsidiaries that guarantee the outstanding BHC Bonds (the “BHC Issuer Group”). The NumberCo Issuer and 153 NumberCo are non-guarantor Restricted Subsidiaries under the BHC Bonds. In other words, the NumberCo Notes (as well as the NumberCo Credit Agreement described below) are structurally senior to the BHC Bonds with respect to the assets of the NumberCo Issuer Group. In addition, the NumberCo Notes and NumberCo Credit Agreement are secured on a parity lien basis with the secured first lien BHC Bonds with respect to the collateral securing the first lien BHC Bonds.

In connection with the issuance of the \$4.4 billion of NumberCo Notes on April 8, 2025, the NumberCo Issuer pledged as security for its obligations under those bonds 185,468,421 common shares of Bausch + Lomb Corporation (“BLCO”), representing approximately 52.5% of the outstanding common shares of BLCO. In connection with the issuance of the additional NumberCo Notes on December 26, 2025, an additional 26,495,472 common shares of BLCO were transferred to the NumberCo Issuer and pledged as security for its obligations under the initially issued NumberCo Notes and the additional NumberCo Notes, such that the NumberCo Issuer held 211,963,893 common shares, representing approximately 60% of the outstanding common shares of BLCO as of the Settlement Date. The NumberCo Notes are secured, subject to customary limitations, by a first priority lien on substantially all assets of the NumberCo Issuer and other guarantors named in the NumberCo Notes Indenture, including a pledge of the NumberCo Issuer’s approximately 60% equity interest in BLCO. For a detailed discussion of all of the covenants for the NumberCo Notes, see our full report on the [10% Senior Secured Notes due 2032](#).

¹ The additional NumberCo Notes were issued in [exchange](#) for approximately \$1.68 billion of BHC’s 4.875% Senior Secured Notes due 2028 and 11% Senior Secured Notes due 2028.

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Concurrently with the offering of the NumberCo Notes, the NumberCo Borrower also entered into a new senior secured credit agreement (the “NumberCo Credit Agreement”), providing for a \$3 billion term loan facility and a \$500 million revolving credit facility. For a detailed discussion of all of the covenants for the NumberCo Credit Agreement, see our full report on the [Credit Agreement](#).

Separately, the Company indirectly holds significant BLCO equity in an Unrestricted Subsidiary, 1375209 B.C. Ltd. (“137 NumberCo”), which was formerly the issuer of the 9% Senior Secured Notes due 2028 (the “Old Holdco Notes”). 137 NumberCo is an Unrestricted Subsidiary under the NumberCo Notes, the NumberCo Credit Agreement, and the BHC Bonds. After the issuance of the additional NumberCo Notes on December 26, 2025, we estimate that 137 NumberCo holds approximately 28% of the equity of BLCO, which is currently unencumbered. Those shares previously secured the Old Holdco Notes, which have since been repaid.

Outstanding Debt

As of March 31, 2026, the Company had the following debt outstanding:

BHC Bonds (issued by BHC):

In previous research, we’ve organized these bonds into four tiers for ease of reference, including a category for the BHC Bonds that no longer have operative restrictive covenants as a result of the 2022 exchange offer and consent solicitation, which we refer to as the “Covenant Stripped Bonds.”^{2,3}

Tier 1 Bonds:

- None

Tier 2 Bonds:

- \$779 million of 5.25% Senior Notes due 2030.

Tier 3 Bonds:

- \$803 million of 4.875% Senior Secured Notes due 2028;
- \$888 million of 11% Senior Secured Notes due 2028;
- \$821 million of 6.25% Senior Notes due 2029;
- \$452 million of 5% Senior Notes due 2029;
- \$352 million of 14% Second Lien Secured Notes due 2030; and
- \$463 million of 5.25% Senior Notes due 2031.

Tier 4 Bonds / Covenant Stripped Bonds:

- \$643 million of 8.5% Senior Notes due 2027;
- \$433 million of 5% Senior Notes due 2028;
- \$171 million of 7% Senior Notes due 2028; and

² As the Covenant Stripped Bonds no longer have meaningful restrictive covenants, we do not address those bonds further in this report.

³ We’ve kept the various Tiers consistent to help with comparison against our previous research, even though there are no Tier 1 Bonds outstanding.

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- \$336 million of 7.25% Senior Notes due 2029.

The NumberCo Notes (issued by the NumberCo Issuer):

- \$6 billion of 10% Senior Secured Notes due 2032 (i.e., the NumberCo Notes)

The NumberCo Credit Agreement (borrowed by the NumberCo Borrower):

- \$2.977 billion outstanding under a term loan B facility (maturing in October 2030), which we refer to in this report as the (“Term Loans”); and
- No outstanding borrowings under the revolving credit facility.

What was the Drop Down Debt contemplated by the NumberCo Notes?

Debt covenant carveout clause (xx)⁴ permits the incurrence of “Drop Down Debt” not to exceed \$1.6 billion less the amount of Incremental Debt originally incurred (whether or not the Incremental Debt remains outstanding) so long as the pro forma Blended First Lien Net Leverage Ratio would not exceed 4.25x (the “Drop Down Debt basket”).

Since the NumberCo Issuer issued \$1.6 billion of additional NumberCo Notes on December 26, 2025, this basket is no longer available.

Drop Down Debt would have been incurred or guaranteed by “Drop Down Holdings,” an entity that would have been formed to hold the Drop Down Assets. This entity was to guarantee the NumberCo Notes and NumberCo Credit Agreement on a first lien basis, so the NumberCo Notes and NumberCo Credit Agreement would have continued to have a first lien on the Drop Down Assets. Some then-unencumbered common shares of BLCO were also to be contributed to Drop Down Holdings, which would have been pledged to secure the Drop Down Debt, but not the NumberCo Notes or NumberCo Credit Agreement (the “Excluded Bausch + Lomb Shares”).

“Drop Down Assets” is defined in the NumberCo Notes Indenture to mean assets constituting at least 90% of the combined “segment profit” of the Diversified and the International business segments as reported in the Company’s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2024.

Permitted Liens clause (26) permits (1) liens securing Drop Down Debt, but Drop Down Debt was permitted to be secured by first liens on assets of the BHC Issuer Group only if the proceeds were used to refinance first lien BHC Bonds and (2) liens on Excluded Bausch + Lomb Shares. Importantly, Drop Down Debt would not have been secured by the BLCO equity that secures the NumberCo Notes and NumberCo Credit Agreement, just as the NumberCo Notes and NumberCo Credit Agreement would not have been secured by the Excluded Bausch + Lomb Shares that could secure the Drop Down Debt.

Again, because the NumberCo Issuer issued the \$1.6 billion in additional NumberCo Notes on December 26, 2025, it is not possible for the NumberCo Issuer to issue “Drop Down Debt” pursuant to Section 4.9(b)(xx) of the NumberCo Notes Indenture. However, the fact that this is not possible does not preclude

⁴ See Section 4.9(b)(xx) of the NumberCo Notes Indenture.

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BHC from entering into a conceptually similar “drop down” transaction, if other capacity to incur and secure the applicable debt is available under the NumberCo Notes Indenture.

What might a hypothetical “drop down” transaction to refinance first lien bonds look like?

In this report, we examine whether BHC could move (i.e., drop down) Diversified and International into a Restricted Subsidiary (the “Alternative Drop Down Issuer”) that would issue new debt (the “Alternative Drop Down Debt”) and dividend the proceeds to BHC for BHC to use to repay the first lien BHC Bonds maturing in 2028. In this hypothetical, the Alternative Drop Down Issuer would be guarantor of, and pledge its assets to secure, the NumberCo Notes and NumberCo Credit Agreement, but would be a non-guarantor Restricted Subsidiary under the BHC Bonds.

In other words, no collateral or credit support would be removed from the NumberCo Notes or the NumberCo Credit Agreement, but credit support from Diversified and International would be stripped away from the BHC Bonds by virtue of being moved to a subsidiary that is a non-guarantor Restricted Subsidiary for purposes of the BHC Bonds.

The Alternative Drop Down Debt would also be guaranteed and secured by the same assets of the BHC Issuer Group that secure the BHC Bonds. However, the Alternative Drop Down Debt would not be guaranteed or secured by assets of the NumberCo Issuer Group. And, unlike the Drop Down Debt contemplated by the NumberCo Notes, the Alternative Drop Down Debt would not be secured by any Excluded Bausch + Lomb Shares.

So, the Alternative Drop Down Debt would have a first lien on the same collateral that the first lien BHC Bonds currently have a first lien on, and no additional credit support.

In other words, as a result of this hypothetical transaction, debt in the Company’s capital structure⁵ would best be thought of as falling into one of three categories of credit support:

- The BHC Bonds:
 - The BHC Bonds would have credit support from the BHC Issuer Group (but no longer have credit support from Diversified and International).
 - The BHC Bonds would be structurally subordinated to the Alternative Drop Down Debt and the NumberCo Notes and NumberCo Credit Agreement as to Diversified and International, which would be assets of the Alternative Drop Down Issuer.
 - The BHC Bonds would be structurally subordinated to the NumberCo Notes and NumberCo Credit Agreement as to the assets of the NumberCo Issuer Group.

- The Alternative Drop Down Debt:
 - The Alternative Drop Down Debt would have a first lien on the assets of the BHC Issuer Group.
 - The Alternative Drop Down Debt would be structurally senior to the BHC Bonds and pari passu with the NumberCo Notes and NumberCo Credit Agreement as to Diversified and International.
 - The Alternative Drop Down Debt would be structurally subordinated to the NumberCo Notes and NumberCo Credit Agreement as to the assets of the NumberCo Issuer Group.

⁵In this report, we are not examining debt of BLCO.

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- The NumberCo Notes and NumberCo Credit Agreement:
 - The NumberCo Notes and NumberCo Credit Agreement would continue to have a first lien on the assets of the BHC Issuer Group.
 - The NumberCo Notes and NumberCo Credit Agreement would be pari passu with the Alternative Drop Down Debt (and structurally senior to the BHC Bonds) as to Diversified and International.
 - The NumberCo Notes and NumberCo Credit Agreement would be structurally senior to the BHC Bonds and the Alternative Drop Down Debt as to the assets of the NumberCo Issuer Group.

So, what is the difference between the Alternative Drop Down Debt hypothesized in this report and the “Drop Down Debt” expressly contemplated by the NumberCo Notes?

The difference is that the Alternative Drop Down Debt would not be secured by any BLCO shares.

Other than that difference, they would be very similar refinancing transactions. The Alternative Drop Down Issuer would be a guarantor of the NumberCo Notes and NumberCo Credit Agreement, but a non-guarantor Restricted Subsidiary under the BHC Bonds.

Would the Alternative Drop Down Debt be permitted by the NumberCo Notes?

Under carveout clause (b)(v) of *Section 4.9 – Incurrence of Indebtedness and Issuance of Preferred Stock* of the NumberCo Notes Indenture, the Company and its Restricted Subsidiaries may incur Permitted Refinancing Indebtedness to refinance certain other debt, including the BHC Bonds.

Under the definition of “Permitted Refinancing Indebtedness,” the new debt must generally⁶ meet the following requirements:

- (1) the principal amount of the Permitted Refinancing Indebtedness may not exceed the amount of the debt being refinanced (plus accrued interest and refinancing expenses);
- (2) the Permitted Refinancing Indebtedness must have a final maturity date later than the final maturity date of, and a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the debt being refinanced; and
- (3) if the debt being refinanced is debt of the NumberCo Issuer or a Guarantor of the NumberCo Notes, the Permitted Refinancing Indebtedness must also be debt of the NumberCo Issuer or a Guarantor of the NumberCo Notes.

All of these requirements would be met by the Alternative Drop Down Debt. BHC is a Guarantor of the NumberCo Notes and the Alternative Drop Down Issuer would also be a Guarantor of the NumberCo Notes, so debt of a Guarantor would be refinanced with debt of Guarantor, meeting this requirement of the Permitted Refinancing Indebtedness definition.

Additionally, under Permitted Liens clause (11) of the NumberCo Notes Indenture, liens securing Permitted Refinancing Indebtedness are permitted so long as:

⁶ There is an additional “Permitted Refinancing Indebtedness” requirement that pertains to contractually subordinated debt that we don’t address in this report, as none of the BHC Bonds are contractually subordinated to other debt.

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- (1) the new lien is limited to the same assets that secured the original lien;
- (2) the debt secured by the new lien is not increased to an amount greater than the Permitted Refinancing Indebtedness (plus refinancing expenses); and
- (3) if the debt secured by “the new Lien”⁷ is secured on a pari passu basis with the lien securing the NumberCo Notes, then the new Lien may secure the Permitted Refinancing Indebtedness on either a pari passu basis or a junior priority basis to the lien securing the NumberCo Notes.

The first lien BHC Bonds are secured on a pari passu basis with the NumberCo Notes on the BHC Issuer Group assets, which currently includes Diversified and International. Pro forma for the consummation of this hypothetical transaction, the Alternative Drop Down Debt would continue to be secured on a pari passu basis with the NumberCo Notes on those assets, so the first lien securing the Alternative Drop Down Debt on the BHC Issuer Group assets (including Diversified and International) would be permitted by Permitted Liens clause (11).

Ultimately, a refinancing transaction using the Alternative Drop Down Debt would refinance first lien BHC Bonds with new debt that would be secured by the same collateral as the first lien BHC Bonds on the same first lien basis. If the Alternative Drop Down Debt is not secured by any BLCO shares, the NumberCo Notes would have the same relative priority over the Alternative Drop Down Debt that it does now over the first lien BHC Bonds. Accordingly, the Alternative Drop Down Debt would be permitted to be incurred and secured as Permitted Refinancing Indebtedness under the NumberCo Notes Indenture. Despite the complexity of the transaction, this would essentially be a “like-for-like” refinancing transaction from the perspective of the NumberCo Notes.

Would the Alternative Drop Down Debt be permitted by the NumberCo Credit Agreement?

The covenants in the NumberCo Credit Agreement apply to Parent (BHC) and any other loan party, so under the proposed scenario, the Alternative Drop Down Issuer would be a loan party under the NumberCo Credit Agreement, so there would need to be capacity under the Debt and Liens covenants under the NumberCo Credit Agreement in order to incur the Alternative Drop Down Debt. The analysis below relates only to BHC’s ability to refinance BHC’s 4.875% Senior Secured Notes due 2028 and 11% First Lien Secured Notes due 2028.

The NumberCo Credit Agreement’s Debt covenant does not provide for a straightforward carveout allowing refinancing of BHC Bonds with debt at an Alternative Drop Down Issuer, but the Company could thread the needle subject to compliance with certain conditions. While Section 1.01 of the NumberCo Credit Agreement includes the defined term “Existing First Lien Notes” to capture BHC’s 4.875% Senior Secured Notes due 2028 and 11% First Lien Secured Notes due 2028, the Debt covenant (*Section 6.01*) does not include a stand-alone basket permitting the Existing First Lien Notes. This is somewhat unusual, as typically existing series of bonds would be expressly permitted in the Debt and/or Liens covenants, as applicable, often with a permitted refinancing component. However, an alternative method to permit the Existing First Lien Notes would be to include them on Schedule 6.01, at which point the Existing First Lien Notes would be permitted under Section 6.01(i). This cannot be confirmed, as the schedules to the NumberCo Credit Agreement have not been publicly filed. However, assuming that the Existing First Lien Notes were listed on Schedule 6.01, the Alternative Drop Down Debt could potentially be incurred as “Refinancing Indebtedness” under Section 6.01(p), which permits the incurrence of Refinancing Indebtedness to refinance certain permitted debt, including debt incurred under Section 6.01(i). The requirements for Refinancing Indebtedness under the NumberCo Credit Agreement are somewhat different

⁷ We assume that the reference to “the new Lien” is a typographical error that was intended to refer to the original lien.

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from the NumberCo Bonds' requirements for "Permitted Refinancing Indebtedness," including, in relevant part:

- (1) the principal amount of the Refinancing Indebtedness may not exceed the amount of the debt being refinanced (plus accrued interest and refinancing expenses) plus any other amount permitted by the Debt covenant;
- (2) the maturity / weighted average life to maturity restrictions that generally apply to Refinancing Indebtedness notably do not apply to Refinancing Indebtedness in respect of debt incurred under Section 6.01(i) (scheduled debt);
- (3) the terms and conditions of the Refinancing Indebtedness in excess of > of \$250 million / 10% of EBITDA may not be materially more favorable than the debt being refinanced (with limited exceptions);
- (4) if the Refinancing Indebtedness is secured, the lien must be a Permitted Lien;
- (5) the obligor of the Refinancing Indebtedness must have been an obligor of the debt being refinanced; and
- (6) certain other restrictions that would not apply to the Alternative Drop Down Debt.

Clause (5) would seem to cause a problem with respect to the Alternative Drop Down Debt, as the Alternative Drop Down Issuer would not have been an obligor of the Existing First Lien Notes. However, creative lawyers may be able to find ways to structure around this, and a key point is that the Refinancing Indebtedness does not need to be issued by the same issuer as the refinanced debt, merely that it cannot be issued by an entity that is not an obligor of the Existing First Lien Notes (so some type of very limited guarantee of the Existing First Lien Notes granted by the Alternative Drop Down Issuer immediately prior to repayment may be sufficient to meet this requirement).⁸ If the Alternative Drop Down Debt cannot be incurred as Refinancing Indebtedness under the NumberCo Credit Agreement, it is difficult to see how BHC could come up with sufficient capacity under the Debt covenant in the NumberCo Credit Agreement to incur the Alternative Drop Down Debt in an amount sufficient to refinance the full amount of the Existing First Lien Notes (as it would essentially be limited to the > of \$300 million / 12.5% of EBITDA general debt basket, as the analysis with respect to the availability of the basket for Drop Down Debt in Section 6.01(t) of the NumberCo Credit Agreement is substantially similar to the analysis under the NumberCo Bonds, which we will not rehash here⁹). The ratio debt basket in Section 6.01(n) of the NumberCo Credit Agreement cannot be used to incur the Alternative Drop Down Debt because ratio debt cannot be secured on a pari passu basis with the obligations under the NumberCo Credit Agreement.

Assuming that the Alternative Drop Down Debt is incurred as Refinancing Indebtedness under the Debt covenant, the Liens covenant analysis is more straightforward. Section 6.02(k)¹⁰ of the NumberCo Credit Agreement permits liens securing debt incurred under 6.01(p) (including any Refinancing Indebtedness) subject to:

- (1) the new lien is limited to the same assets that secured the original lien; and
- (2) if the debt being refinanced was subject to an intercreditor agreement, the Refinancing

⁸ This would be a very aggressive interpretation by BHC that would likely lead to litigation. The Company would probably need to be pretty desperate to pursue this approach.

⁹ A slight technical difference may be that the \$1.6 billion of additional NumberCo Notes may have been incremental equivalent debt under the NumberCo Credit Agreement, but the amount of permitted Drop Down Debt is reduced by issuances of incremental equivalent debt, so it ends up being a distinction without much of a difference for purposes of analyzing the availability of the basket for Drop Down Debt. Also, per clause (a) of the definition of "Incremental Conditions" in the NumberCo Credit Agreement, the window for incurring accordion and incremental equivalent debt closed on December 31, 2025.

¹⁰ The definition of "Permitted Liens" in Section 1.01 of the NumberCo Credit Agreement defines it as "Liens permitted by Section 6.02," so if this exception can be used to secure the Alternative Drop Down Debt, the requirement in clause (5) for Refinancing Indebtedness would be satisfied. The logic is a little circular but appears to work.

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Indebtedness will be subject to intercreditor arrangements on no less favorable terms.

As noted above, the Alternative Drop Down Debt would be secured by the same collateral that secures the Existing First Lien Notes (but not other assets of the NumberCo Issuer Group), thus, so long as the Alternative Drop Down Debt can meet the definition of Refinancing Indebtedness, the lien securing the Alternative Drop Down Debt would be permitted by the NumberCo Credit Agreement.

If BHC determined that the Alternative Drop Down Debt could not be incurred as Refinancing Indebtedness under the NumberCo Credit Agreement, it could seek to amend the Debt and Liens covenants under the NumberCo Credit Agreement to expressly permit the Alternative Drop Down Debt. Section 10.02 of the NumberCo Credit Agreement deals with amendments. Section 10.02(b) permits the NumberCo Credit Agreement to generally be amended with the consent of the Required Lenders. The definition of “Required Lenders” in Section 1.01 of the NumberCo Credit Agreement means “Lenders having Loans or unused Revolving Credit Commitments representing more than 50% of the sum of the total Loans and such unused Revolving Credit Commitments.” So, the NumberCo Credit Agreement could be amended with a majority group to amend the Debt and Liens covenants under the NumberCo Credit Agreement to expressly permit the Alternative Drop Down Debt.¹¹ Section 10.02(b) also includes a list of categories of amendments for which there is a heightened consent standard, but amendments to the Debt and Liens covenants to permit the incurrence of the Alternative Drop Down Debt do not seem to fall into any of these categories.

Would the Alternative Drop Down Debt be permitted by the BHC Bonds?

Carveout clause(b)(xx) of *Section 4.9 – Incurrence of Indebtedness and Issuance of Preferred Stock* of each of the Indentures for the BHC Bonds allows secured debt of the Company or any Restricted Subsidiary (including non-Guarantors) to a 3.5x “Secured Leverage Ratio.” The numerator for this Ratio test varies for the BHC Bonds:

- For the 6.25% Senior Notes due 2029, 5% Senior Notes due 2029, 5.25% Senior Notes due 2030, and 5.25% Senior Notes due 2031, the “Secured Leverage Ratio” generally measures the ratio of net secured debt to Consolidated Cash Flow of the Company.
- For the 14% Second Lien Secured Notes due 2030, the “Secured Leverage Ratio” generally measures the ratio of net first lien and second lien secured debt to Consolidated Cash Flow of the Company.
- For the 4.875% Senior Secured Notes due 2028 and 11% Senior Secured Notes due 2028, the “Secured Leverage Ratio” generally measures the ratio of net first lien secured debt to Consolidated Cash Flow of the Company.

Under each of the Indentures for the BHC Bonds, any debt incurred under Debt covenant carveout clause(b)(xx) can be secured on a first lien basis under Permitted Liens clause (1).

According to *CreditSights* estimates, the Company’s net first lien leverage ratio was approximately 3.33x and net secured leverage ratio was approximately 3.45x, in each case at March 31, 2026. This means that the Company currently can meet the Secured Leverage Ratio test in each of the BHC Bonds. If pro forma for the incurrence of the Alternative Drop Down Debt and refinancing of first lien BHC Bonds, the Secured

¹¹ Given the proposed structure of the Alternative Drop Down Debt (which would help the Company address an upcoming maturity without diluting the credit support provided to the lenders under the NumberCo Credit Agreement), it is easy to envision a scenario where BHC is able to obtain majority consent for these amendments.

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Leverage Ratio would not exceed 3.5x under any of the BHC Bonds, then Debt covenant carveout clause (b)(xx) for each of the BHC Bonds would permit the incurrence of the Alternative Drop Down Debt by the Alternative Drop Down Issuer and the guarantees of this debt by the BHC Issuer Group, and Permitted Liens clause (1) for each of the BHC Bonds would permit this debt to be secured by first liens on the assets of the Alternative Drop Down Issuer and the BHC Issuer Group.

Additionally, *Section 4.15 – Additional Note Guarantees* of each of the Indentures for the BHC Bonds is a Future Guarantors covenant that requires (among other things) that any subsidiary of BHC that “Guarantees”¹² any Capital Markets Indebtedness of BHC or any Guarantor after the issue date of the applicable BHC Bonds must also guarantee the applicable BHC Bonds.

Accordingly, if a transaction were structured as a new first lien bond issuance from BHC with a guarantee from the Alternative Drop Down Issuer, then the Alternative Drop Down Issuer would be required to guarantee each of the BHC Bonds. But, if the Alternative Drop Down Issuer is *the issuer* of the new debt, with the BHC Issuer Group guaranteeing the Alternative Drop Down Debt, this structure would arguably avoid any Future Guarantors requirement. While using this structure to avoid the Future Guarantors covenant in the BHC Bonds elevates form over substance (since it is substantively the same thing as the Alternative Drop Down Issuer guaranteeing new BHC debt), this is the same loophole that the Company used when structuring the NumberCo Notes and NumberCo Credit Agreement to avoid a requirement for the NumberCo Issuer to guarantee the BHC Bonds.

— *Covenant Review*

¹² “Guarantee” is defined as “a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.”

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