BAUSCH HEALTH: CAN NEW SPINCO FINANCING BE STRUCTURED AS A DOUBLE DIP?

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The Bottom Line™:

- Bausch Health disclosed in its 2024 10-K that the "SpinCo" Unrestricted Subsidiary (that directly holds 50.1% of Bausch + Lomb's equity) entered into a $700 million bridge loan facility on February 11, 2025. If funded, collateral for this facility would include a portion of the Bausch + Lomb equity held by SpinCo.
- On its February 19 earnings call, Bausch Health also disclosed that it plans to tap the capital markets in the first half of 2025 to address future maturities, and that this new financing could include pledging a portion of the Bausch + Lomb equity.
- The Bausch Health indentures would not currently allow BHC to structure a double dip-type deal with Bausch + Lomb equity, because all of the entities that currently hold Bausch + Lomb equity are Unrestricted Subsidiaries, and these indentures would not allow Unrestricted Subsidiaries to raise new debt with credit support from the Bausch Health restricted group.
- We remind our readers that 8.7% of Bausch + Lomb equity can be moved from the issuer for the Holdco Bonds to SpinCo without any restriction under the Holdco Bond Indenture. This stake could be used to support new financing at SpinCo.

Overview

On February 19, Bausch Health Companies, Inc. (the "Company" or "BHC") filed its 2024 10-K (the "10-K") with the SEC. In the 10-K, the Company disclosed[1] that on February 11, 2025, BHC's subsidiary 1261229 B.C. Ltd. ("SpinCo") entered into a commitment with a third-party lender to provide a senior secured bridge loan facility in an aggregate principal amount of up to $700 million, subject to limitations based on the value of the collateral (the "Bridge Facility").

In addition, the Company disclosed in its February 19 earnings call that it plans to access the capital markets in the first half of 2025, and that this financing could include pledging a portion of the Bausch + Lomb shares owned by the Company. The Company's CFO also disclosed that while multiple options are being discussed, BHC is looking at replacing the Bridge Facility with a permanent structure in place to deal with 2027 maturities and beyond.

In light of these developments, we have received numerous inquiries as to whether the Bausch Health bond indentures would allow SpinCo to structure the new financing as a double dip-type financing using Bausch + Lomb equity in order to facilitate liability management.

[1] See page 87 of the 10-K.

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In this report, we assume that:

- the Bridge Facility (or any capital markets debt that replaces it) will have SpinCo as the primary borrower/issuer,
- SpinCo is and will remain an Unrestricted Subsidiary of BHC, and
- that SpinCo will continue to own (directly or through its ownership of the Holdco Issuer) all of the Bausch + Lomb equity held by BHC.

Based on those assumptions, in this report, we address whether the new SpinCo financing could be structured as a double-type financing that both (1) is secured by some or all of the Bausch + Lomb equity owned by SpinCo and (2) has first lien claims on assets that currently secure the existing BHC first lien debt.[2]

Previous Research

We have previously published extensive research on the Bausch Health capital structure, which is available here. In particular, we direct our readers to the two most recent Bausch Health special reports that we've published: Bausch Health: Initial Impressions on the Strategic Alternatives Update, which we published on February 13, 2025, and Bausch Health: Can BHC Structure Another Holdco-Style Deal with Bausch + Lomb Equity to Facilitate Liability Management?, which we published on February 14, 2025. We refer to these reports as the "Previous Reports," and assume that all readers of this report have read the Previous Reports.

Outstanding High Yield Bonds

At September 30, 2024, the Company had the following series of high yield bonds outstanding. We've organized these bonds into four tiers for ease of reference, including a category for the Company's 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."[3]

Tier 1 Bonds:

- $1.68 billion of 5.5% Senior Secured Notes due 2025; and
- $535 million of 9% Senior Notes due 2025.

Tier 2 Bonds:

- $500 million of 5.75% Senior Secured Notes due 2027; and
- $779 million of 5.25% Senior Notes due 2030.

Tier 3 Bonds:

- $1 billion of 6.125% Senior Secured Notes due 2027;
- $1.6 billion of 4.875% Senior Secured Notes due 2028;

[2] We do not address the provisions of the Company's Credit Agreement in this report. Our research on the Credit Agreement is available here, and the Credit Agreement is available here.
[3] As the Covenant Stripped Bonds no longer have meaningful restrictive covenants, we do not address those bonds further in this report.

- $1.774 billion of 11% First Lien Secured Notes due 2028 (the "Exchange First Lien Notes");
- $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 (the "Exchange Second Lien Notes"); and
- $463 million of 5.25% Senior Notes due 2031.

Tier 4 Bonds / Covenant Stripped Bonds:

- $602 million of 9.25% Senior Notes due 2026;
- $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
- $336 million of 7.25% Senior Notes due 2029.

In addition, there are $999 million of 9% Senior Secured Notes due 2028 (the "Holdco Bonds") issued by 1375209 B.C. Ltd (the "Holdco Issuer"), which is a subsidiary of SpinCo and also an Unrestricted Subsidiary under the Company's debt agreements. Accordingly, the Holdco Bonds are not debt of the BHC restricted group.[4] In this report, we refer to the indenture for the Holdco Bonds as the "Holdco Bond Indenture."

In this report, we collectively refer to all of the unsecured bonds outstanding in the capital structure of the Company's restricted group (other than Covenant Stripped Bonds) as the "Unsecured BHC Bonds," and we collectively refer to the indentures for the Unsecured BHC Bonds as the "Unsecured BHC Indentures." We refer to the 14% Second Lien Secured Notes due 2030 as the "Second Lien BHC Bonds" or the "Exchange Second Lien Notes," and the indenture for those bonds as the "Second Lien BHC Indenture." We collectively refer to each of the Company's first lien secured BHC Bonds[5] as the "First Lien BHC Bonds," and to the indentures governing those bonds as the "First Lien BHC Indentures." Finally, we collectively refer to the Unsecured BHC Bonds, the Second Lien BHC Bonds, and the First Lien BHC Bonds as the "BHC Bonds," and we collectively refer to the indentures for the BHC Bonds as the "BHC Indentures."

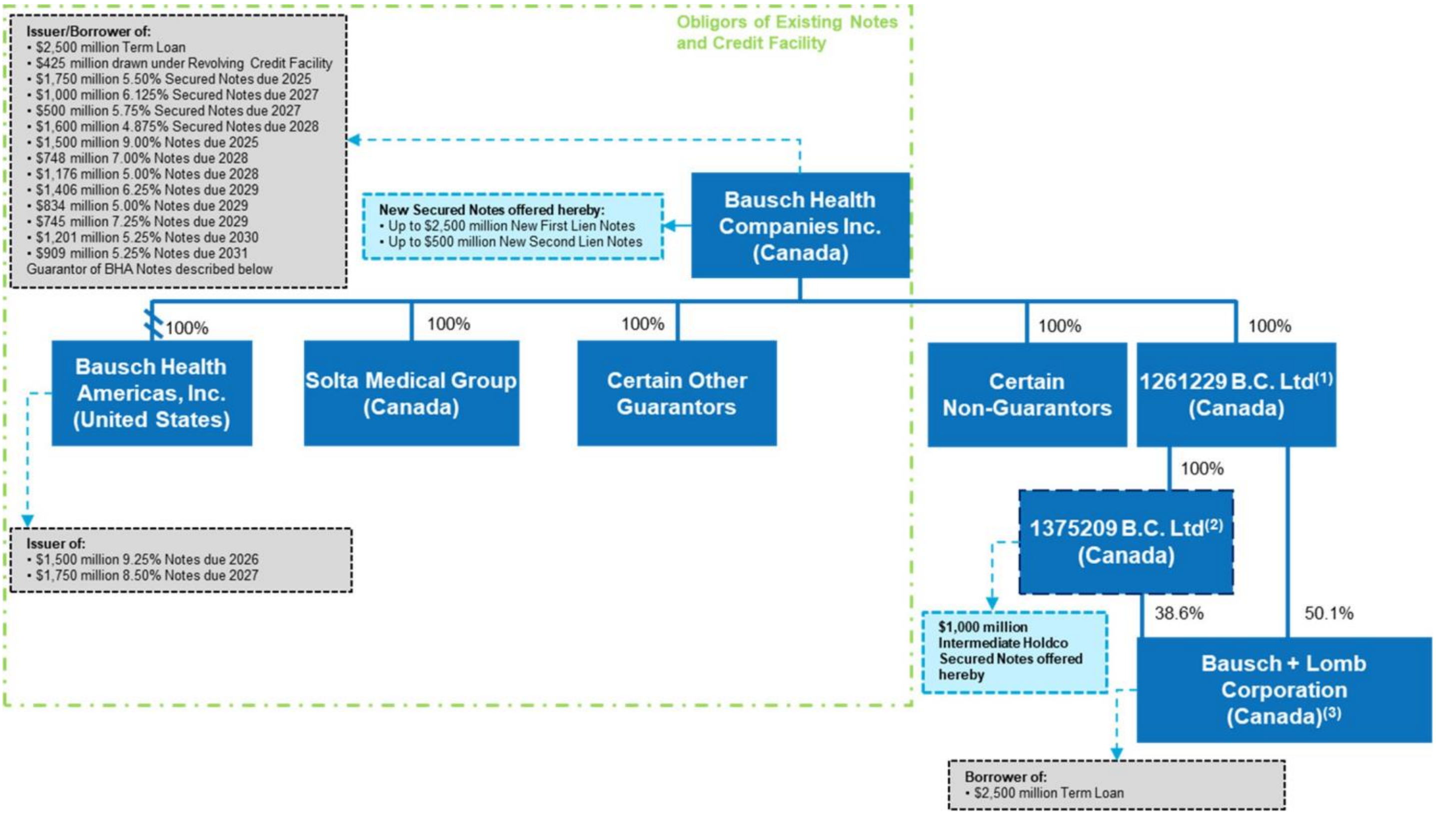
The BHC Bonds are currently guaranteed by each of the Company's subsidiaries that is a guarantor under the Credit Agreement. In this report, we refer to the guarantors of the BHC Bonds as the "Guarantors."[6] The First Lien BHC Bonds are generally secured by a first lien on substantially all of the assets of the Company and the Guarantors that secure the Credit Agreement (the "Collateral"), and the Second Lien BHC Bonds are secured by a second lien on the Collateral.

The Complex BHC Capital Structure

We begin with a recap of the complex BHC capital structure. Below is an organizational chart of BHC as presented in an August 30, 2022 Exchange Offer Memorandum and Consent Solicitation Statement (the

[4] For more information on the Holdco Bonds, please see our full report on the terms of those bonds.
[5] The first lien secured BHC Bonds are the 5.5% Senior Secured Notes due 2025, the 5.75% Senior Secured Notes due 2027, the 6.125% Senior Secured Notes due 2027, the 4.875% Senior Secured Notes due 2028, and the 11% First Lien Secured Notes due 2028.
[6] It appears that each series of the Covenant Stripped Bonds are also currently guaranteed by the Guarantors, even though the meaningful restrictive covenants for those bonds have been stripped.

"EO OM")[7] that was used by BHC in connection with the Company's most recent liability management exercises in September 2022.[8]



BHC indirectly holds 88.7% of the equity of B+L, and the remainder of B+L is held by public shareholders. SpinCo holds 50.1% of B+L equity directly, and owns 100% of the Holdco Issuer. The Holdco Issuer holds 38.6% of the B+L equity. Notably, SpinCo does not guarantee the Holdco Bonds, and none of the B+L equity held directly by SpinCo is pledged in favor of the Holdco Bonds.

At the time of the liability management exercises in September 2022, SpinCo was a Restricted Subsidiary, and the equity of SpinCo was pledged to secure the Credit Agreement, the First Lien BHC Bonds, and the Second Lien BHC Bonds. However, SpinCo and all of its subsidiaries, including B+L and its subsidiaries, were subsequently designated as Unrestricted Subsidiaries, as BHC disclosed on November 29, 2022.[9] As a result, the equity of SpinCo was released from the Collateral securing the Credit Agreement and the secured BHC Bonds.

Assuming that the BHC capital structure has not materially changed since this organizational chart (with the exception of SpinCo and its subsidiaries, including B+L and its subsidiaries, being designated as

[7] The EO OM is available here, under the heading for "Related Documents."
[8] We note that this chart does not purport to represent all legal entities on the BHC capital structure and is provided for illustrative purposes only.
[9] For more information on this designation, please see our November 30, 2022 report Bausch Health: The Bausch + Lomb Entities are Designated as Unrestricted Subsidiaries.

Unrestricted Subsidiaries), it appears that the equity of SpinCo remains held by entities within the restricted group for the Credit Agreement and the BHC Indentures.

A Brief Summary of "Double-Dip" and "Pari-Plus" Liability Management Transactions

Double-Dips involve the potential enhancement of claims against existing collateral assets. This usually occurs via the following structure: (1) incurrence of a new debt facility at a non-guarantor subsidiary of the existing issuer, either within or outside of the restricted group and (2) on-lending the proceeds of the new debt facility to the existing issuer via an intercompany debt facility, with the new non-guarantor subsidiary borrower as the lender. The facility incurred under step one is usually guaranteed and secured by the existing guarantors and collateral assets that provide credit support for the existing first lien debt obligations. On top of that, the intercompany debt facility is also guaranteed and secured by the same guarantors and collateral. In this way, the secured claims of the new third-party creditors include both of the facilities incurred under clauses (1) and (2), as the intercompany loan facility provides the third-party creditors with an indirect claim against the guarantors / collateral assets. This is because the intercompany loan itself is an asset of the non-guarantor subsidiary borrower / issuer, which is also pledged for the benefit of the third-party creditors. In other words, for each $100 of new money, the new lenders purportedly have $200 of claims—hence, a "double dip."

Similar to the above is the "Pari-Plus" transaction structure, which was utilized in the Sabre 2023 LMTs. Pari-Plus LMTs generally involve the provision of additional credit support to one group of creditors by using an intercompany note structure borrowed from plain vanilla Double-Dips. For example, an Unrestricted Subsidiary could potentially incur new debt that is both secured by the assets of that Unrestricted Subsidiary and guaranteed and secured by the existing guarantors and collateral assets, and proceed to on-loan the proceeds of that new debt to the restricted group for the existing secured debt on a parity lien basis. This on-loan would be pledged to secure the new debt of the Unrestricted Subsidiary. If permitted, this would result in the new creditors of the Unrestricted Subsidiary having a "double-dip" parity lien claim against the restricted group by virtue of the guarantees and pledge of the secured intercompany loan, plus a structurally senior claim against the assets of the Unrestricted Subsidiary. While there are many variations that this structure can take, it's conceptually similar to the Double-Dip structure, as it provides multiple avenues of recovery from the same financing.

For more information on Double Dip-type transaction structures, please see Double Dip Analysis Under High Yield Indentures.

Could BHC structure a Double Dip-type transaction where SpinCo (or another Unrestricted Subsidiary) raised money based on some or all of the Bausch + Lomb equity held by it and this new debt received credit support from the restricted group for the BHC Bonds?

No. If BHC attempted to structure a Double Dip-type transaction where SpinCo raised money based on some or all of the Bausch + Lomb equity held by it, and this new SpinCo debt received credit support from the BHC Bonds restricted group, the BHC Indentures would not allow this.

This is because clause (1) of the "Unrestricted Subsidiary" definition of each BHC Indentures requires that the Unrestricted Subsidiary "has no Indebtedness other than Non-Recourse Debt." The definition of "Non-Recourse Debt" for each BHC Indenture is below:

> "Non-Recourse Debt" means Indebtedness:
>
> (1) as to which none of [BHC] or any of its Restricted Subsidiaries **(a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise**, or (c) constitutes the lender;
>
> (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Notes) of [BHC] or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and
>
> (3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of [BHC] or any of its Restricted Subsidiaries. [emphasis ours]

If, for example, SpinCo (or another Unrestricted Subsidiary) were to raise new money secured by a pledge of some or all of the Bausch + Lomb equity held by that entity, on-loan the proceeds to the BHC restricted group and pledge the intercompany loan to secure the new Unrestricted Subsidiary debt, this would clearly violate clause (1) of the "Non-Recourse Debt" definition. This is because the debt of the Unrestricted Subsidiary would clearly have credit support from the BHC restricted group (which would violate clause (1)(a) of this definition), and the applicable entities within the BHC restricted group would be indirectly liable "as a guarantor or otherwise", due to the pledge of the intercompany loan (which would violate clause (1)(b) of this definition).

Further, the "Unrestricted Subsidiary" definition of each BHC Indenture makes clear that these requirements do not just apply at the moment that a subsidiary becomes an Unrestricted Subsidiary, but they are ongoing requirements. The language states:

> **If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of this Indenture** and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Company as of such date, and, if such Indebtedness is not permitted to be incurred as of such date under Section 4.9 hereof, the Company will be in default of such covenant. [emphasis ours]

This language clearly states that the requirements of the "Unrestricted Subsidiary" definition are not merely tested at the moment the applicable subsidiary becomes an Unrestricted Subsidiary, but are ongoing requirements that the Unrestricted Subsidiary must continue to comply with.

Accordingly, the BHC Indentures would not allow a Double Dip-type transaction where SpinCo (or another Unrestricted Subsidiary) raised money based on some or all of the Bausch + Lomb equity held by it and this new debt received credit support from the restricted group for the BHC Bonds.

We remind our readers that if BHC wanted to remove 8.7% of the equity of Bausch + Lomb that is held by the Holdco Issuer and use that 8.7% stake to raise new financing, the Holdco Bond Indenture would not restrict this.

The Holdco Bond Indenture would allow the Holdco Issuer to distribute 8.7% of the equity of Bausch + Lomb (or the proceeds of a sale of that equity) to its shareholders.[10] As we assume that SpinCo is currently the parent entity of the Holdco Issuer, the Holdco Issuer could dividend 8.7% of the equity of Bausch + Lomb to SpinCo and SpinCo could use that equity to credit support new financing.

In fact, on the February 19 conference call, the Company's CFO alluded to this possibility in responding to a question. He correctly pointed out that the Holdco Issuer can freely transfer out about 8% of the Bausch + Lomb equity:

> First of all, just as a point of clarification, although the $1 billion against the [Holdco Issuer] that holds 38% of the shares, only 30% are really fully encumbered. **About 8% can be sold or transferred to another entity. These 8% would be added to the remaining 50% that would be used as collateral to that credit facility**. [emphasis ours]

Accordingly, when assessing how much of the Bausch + Lomb equity can be pledged to support new debt of SpinCo (or another Unrestricted Subsidiary), it's important to remember that this 8.7% of Bausch + Lomb equity can be moved from the Holdco Issuer to SpinCo without restriction under the Holdco Bond Indenture.

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[10] See Section 4.8(b)(v) and Section 4.8(b)(vi) of the Holdco Bond Indenture.

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