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BAUSCH HEALTH: INITIAL IMPRESSIONS ON THE NEW PROPOSALS

Anthony P. Canale, J.D.,: *Global Head of Research*,
Covenant Review

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Bausch Health: Initial Impressions on the New Proposals

The Bottom Line™:

- Assuming that the Holdco bonds are redeemed as a result of either of these two proposals, there are no indenture restrictions on the Company's ability to spin off Bausch + Lomb equity to shareholders.
- If either proposal is accepted, this would provide the Company with enhanced flexibility to address its remaining maturities under the BHC indentures.
- The second proposal does not appear to contemplate a double dip-type structure that would give the new money a parity lien claim on the "RemainCo" assets.

Overview

On March 3, our sister company LFI reported that a group of outside investors led by Seaport Global and Paul Hastings have put forth two separate proposals to address the Bausch Health Companies, Inc. capital structure. In this report, we refer to Bausch Health Companies, Inc. as the "Company" or "BHC," and we refer to the Company without giving effect to the Bausch + Lomb business as "RemainCo."

The first proposal ("Proposal 1") reportedly consists of a $4 billion equity rights offering which would be backed by the outside investor group and open to existing shareholders. The offering reportedly targets addressing BHC's shorter-dated debt maturities to create runway while improving the Company's credit profile with a much-needed cash injection. Reportedly, the investor group is prepared to provide at least $2 billion of the rights offering and is open to participation in the offering from creditors in the bondholder co-op group.

The second proposal ("Proposal 2") reportedly consists of a $4 billion, three year, zero coupon bond in which all of the Company's equity in B+L would be pledged as collateral on a 70% LTV basis. We collectively refer to Proposal 1 and Proposal 2 in this report as the "Proposals."

Each Proposal reportedly contemplates spinning off Bausch + Lomb Corporation ("B+L") as part of the transactions. In this report, we provide our initial impressions on the new Proposals, and the potential implications of these Proposals on the existing BHC bonds and the Holdco bonds. As it is unclear whether the Company's Credit Agreement would be refinanced and/or amended in connection with either Proposal, we generally do not address the provisions of the Company's Credit Agreement in this report.[1]

[1] Our research on the Credit Agreement is available here, and the Credit Agreement is available here.

ANALYST CONTACT:
Anthony P. Canale
1 (212) 716-5780
acanale@covenantreview.com

Previous Research

We have previously published extensive research on the Bausch Health capital structure, which is available here.

Outstanding High Yield Bonds

At December 31, 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."[2]

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;
- $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 an Unrestricted Subsidiary under the Company's debt agreements. Accordingly, the Holdco Bonds are not debt of the BHC restricted group.[3]

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."

[2] As the Covenant Stripped Bonds no longer have meaningful restrictive covenants, we do not address those bonds further in this report.
[3] For more information on the Holdco Bonds, please see our full report on the terms of those bonds.

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[4] 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."[5] 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.

If a Proposal contemplates that all of the B+L equity held by SpinCo and the Holdco Issuer would be spun off to BHC shareholders, then the Holdco Bonds will most likely have to be addressed.

As we have discussed in previous reports,[6] the Holdco Issuer currently holds 38.6% of the B+L equity. In addition, as we discussed in our full report on the Holdco Bonds, it would be an Event of Default if the Holdco Issuer fails to own at least 29.5% of the issued and outstanding B+L equity at any time.[7]

Separately, the Holdco Bonds are cash pay, and the Holdco Issuer does not have any income from operations. As a result, the Holdco Issuer's ability to service its obligations under the Holdco Bonds substantially depends upon the cash flow and payment of funds to it in the form of cash dividends from B+L or investments from BHC. B+L does not currently pay a dividend on its common shares, and disclosed in its 2024 10-K that it does not expect to pay dividends on its common shares for the foreseeable future.[8]

Accordingly, if all of the equity of B+L held by SpinCo and the Holdco Issuer is to be spun off to BHC shareholders, then the Holdco Bonds would have to be redeemed (or otherwise addressed) in connection with that transaction.

Assuming that the Holdco Bonds are redeemed as a result of either of the Proposals, there are no indenture restrictions on the Company's ability to spin off B+L equity to the Company's shareholders.

As we have discussed in previous reports, the BHC Indentures all currently allow BHC to spin-off the equity of B+L indirectly held by the restricted group to BHC shareholders.[9] However, the planned spin-off of B+L has not occurred for years, due in part to creditor concerns regarding the solvency of the BHC credit, pro forma for a spin-off of B+L. It's beyond our expertise as leveraged finance attorneys to assess whether the

[4] 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.
[5] 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.
[6] For example, please see Bausch Health: Frequently Asked Questions on a Potential Sale of Bausch + Lomb.
[7] See Section 6.1(j) of the indenture for the Holdco Bonds.
[8] The B+L 2024 10-K is available here.
[9] This is also true for the Credit Agreement. See Section 6.04(a)(xvii) of the Credit Agreement which allows for the spin-off or distribution of the equity of any Unrestricted Subsidiary, and Section 4.8(b)(xiii) of each BHC Indenture.

new money represented by either of the Proposals would be enough to remove any solvency concerns at BHC, but it's important to recognize that the covenants of the BHC Indentures (and the Credit Agreement) would present no restriction to a spin-off of B+L equity to the Company's shareholders.

If Proposal 1 is accepted, this would provide the Company with enhanced flexibility to address its maturities under the BHC Indentures.

If Proposal 1 is accepted and the Company is able to raise $4 billion in proceeds through a BHC rights offering, this would give the Company enhanced flexibility to address its maturities under the BHC Indentures, including in the following ways:

- *Equity Credit Debt*: Each of the BHC Indentures for the Tier 2 and Tier 3 Bonds[10] contains an equity credit debt carveout that would allow the Company to incur new debt up to 100% of the amount of proceeds received by the Company from the sale of its equity, if these proceeds are not applied to make Restricted Payments under the applicable BHC Indenture.[11] Accordingly, the receipt of $4 billion of equity proceeds by BHC from a rights offering would create $4 billion in new debt capacity under each BHC Indenture, if so applied. Notably, there is not a Permitted Liens carveout that specifically allows equity credit debt to be secured, and so in order for the Company to secure any new equity credit debt, BHC would need to find the liens capacity under a different Permitted Liens carveout.

- *Restricted Payments Basket Build*: The Restricted Payments basket build provision for each of the BHC Indentures would build to reflect the proceeds received by the Company from the sale of its equity.[12] Of course, as we've written in previous reports, the Company already has enormous basket build under the tightest of its indentures, so it's not apparent how much this enhanced flexibility actually matters to this issuer. The Company disclosed in its 2024 10-K that it has an estimated $10.7 billion of capacity under the most restrictive of the BHC Indentures as of December 31, 2024.

- *Ratio-based Debt, Liens, Restricted Payments and Permitted Investments carveouts:* If the Company is able to pay down approximately $3 billion of debt within the BHC credit (assuming that the $1 billion of Holdco Bonds would also have to be repaid in order to spin off B+L), this would obviously enhance the Company's ability to incur new debt, secure new debt, make Restricted Payments, and make Permitted Investments pursuant to leverage-based Ratios, all of which would improve by virtue of the paydown of $3 billion of debt within the BHC credit. While the specific Ratios vary among the various tiers of BHC Bonds that we describe in this report, we'll use the Exchange First Lien Notes as an example.

  The indenture for the Exchange First Lien Notes would allow any new Ratio debt to be incurred pursuant to either a 2x Fixed Charge Coverage Ratio or a 6.5x Total Leverage Ratio, and both of these Ratios would obviously improve pursuant to a $3 billion debt paydown within the BHC

[10] The 5.5% Senior Secured Notes due 2025 and the 9% Senior Notes due 2025 do not contain the equity credit debt carveout, but these Tier 1 Bonds would no doubt be refinanced with the proceeds of a new equity raise.
[11] See Section 4.9(b)(xxi) of each BHC Indenture.
[12] See Section 4.8(a)(3)(B) of each BHC Indenture.

credit.[13] Similarly, that indenture would allow any secured debt to be incurred pursuant to a 3.5x Secured Leverage Ratio, which would also improve pursuant to a $3 billion debt paydown that would presumably include the $1.68 billion of 5.5% Senior Secured Notes due 2025. Finally, that indenture would allow the Company to make uncapped Restricted Payments to a 5x Total Leverage Ratio and uncapped Permitted Investments to a 5.5x Total Leverage Ratio. Our sister company CreditSights estimated in a [February 20, 2025 report](#) that RemainCo's current gross total leverage was in the range of 5.6x[14], and if Proposal 1 were to involve a paydown of $3 billion of debt at the BHC credit, this would obviously reduce leverage by over a turn of EBITDA, which would give the Company the flexibility to make Restricted Payments and/or Permitted Investments using these Ratio-based carveouts.

While this list is not intended to be exhaustive, it's clear that Proposal 1 would have significant implications on the BHC Indentures, providing significant additional flexibility to an issuer that already has plenty of optionality in its covenant sets.[15]

If Proposal 2 is accepted, this would also provide the Company with enhanced flexibility to address its maturities under the BHC Indentures.

As noted earlier in this report, Proposal 2 contemplates raising $4 billion in proceeds through a new three year, zero coupon bond in which all of the Company's equity in B+L would be pledged as collateral.

In considering Proposal 2, we assume that the new debt to be incurred in Proposal 2 would be incurred at (or at a subsidiary of) the "SpinCo" entity holding the B+L stake, and that as part of these transactions the Holdco Bonds would be repaid, which would free up the Company's entire 88.7% stake in BLCO to be pledged to secure the new financing on an approximately 70% LTV basis.

We further assume that because each Proposal reportedly contemplates BLCO being spun off to shareholders (and in the case of Proposal 2 presumably through a spin of the equity of a parent entity such as SpinCo), that the new financing would be completely non-recourse to the BHC credit. Additionally, we assume that SpinCo (or another issuer of the new debt) would dividend the proceeds of the new debt to BHC (after the repayment of the Holdco Bonds).

Of course, because SpinCo and its subsidiaries are Unrestricted Subsidiaries under the BHC Indentures (as well as under the Credit Agreement), the incurrence of additional debt or liens at the SpinCo credit would not be restricted at all by the BHC Indentures (or by the Credit Agreement).[16]

If Proposal 2 is accepted and SpinCo is able to raise in the range of $4 billion and dividend $3 billion of those proceeds to the Company (after repaying the $1 billion of Holdco Bonds), this would give the Company enhanced flexibility to address its maturities under the BHC Indentures, including in the following ways:

[13] The improved Debt covenant ratios would also make it easier for the Company to access the enormous Restricted Payments basket build capacity available under each of the BHC Indentures, pro forma for Proposal 1.
[14] According to CreditSights, net total leverage is in the range of 5.2x.
[15] For more information on the current flexibility that the Company presently has under the BHC Indentures to incur incremental secured debt and/or make investments in Unrestricted Subsidiaries, please see Bausch Health: Frequently Asked Questions on Potential Liability Management Exercises.
[16] For more information on the flexibility to incur new debt at the SpinCo entity, please see Bausch Health: Can BHC Structure Another Holdco-Style Deal with Bausch + Lomb Equity to Facilitate Liability Management?

- *Restricted Payments Basket Build*: The Restricted Payments basket build provision for each of the BHC Indentures would likely build to reflect the proceeds received by the Company from SpinCo.[17] Of course, as we've written in previous reports, the Company already has enormous basket build under the tightest of its indentures, so it's not apparent how much this enhanced flexibility actually matters to this issuer. The Company disclosed in its 2024 10-K that it has an estimated $10.7 billion of capacity under the most restrictive of the BHC Indentures as of December 31, 2024.

- *Ratio-based Debt, Liens, Restricted Payments and Permitted Investments carveouts*: If the Company is able to pay down approximately $3 billion of debt within the BHC credit (assuming that the $1 billion of Holdco Bonds would also have to be repaid in order to spin off B+L), this would obviously enhance the Company's ability to incur new debt, secure new debt, make Restricted Payments and make Permitted Investments pursuant to leverage-based Ratios, all of which would improve by virtue of the paydown of debt within the BHC credit. While the specific Ratios vary among the various tiers of BHC Bonds that we describe in this report, we'll use the Exchange First Lien Notes as an example.

  The indenture for the Exchange First Lien Notes would allow any new Ratio debt to be incurred pursuant to either a 2x Fixed Charge Coverage Ratio or a 6.5x Total Leverage Ratio, and both of these Ratios would obviously improve pursuant to a $3 billion debt paydown within the BHC credit.[18] Similarly, that indenture would allow any secured debt to be incurred pursuant to a 3.5x Secured Leverage Ratio, which would also improve pursuant to a $3 billion debt paydown that would presumably include the $1.68 billion of 5.5% Senior Secured Notes due 2025. Finally, that indenture would allow the Company to make uncapped Restricted Payments to a 5x Total Leverage Ratio and uncapped Permitted Investments to a 5.5x Total Leverage Ratio. Our sister company CreditSights estimated in a February 20, 2025 report that RemainCo's current gross total leverage was in the range of 5.6x[19], and if Proposal 2 were to involve a paydown of $3 billion of BHC debt, this would obviously reduce leverage by over a turn of EBITDA, which would give the Company the flexibility to make Restricted Payments and/or Permitted Investments using these Ratio-based carveouts.

While this list is not intended to be exhaustive, it's clear that Proposal 2 would have significant implications on the BHC Indentures, providing significant additional flexibility to an issuer that already has plenty of optionality in its covenant sets.[20]

Proposal 2 apparently does not contemplate a double dip-type structure that would give the new money a parity lien claim on the RemainCo assets.

On its February 19 earnings call, the Company 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.

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[17] See Section 4.8(a)(3) of each BHC Indenture.
[18] The improved Debt covenant ratios would also make it easier for the Company to access the enormous Restricted Payments basket build capacity available under each of the BHC Indentures, pro forma for Proposal 2.
[19] According to CreditSights, net total leverage is in the range of 5.2x.
[20] For more information on the current flexibility that the Company presently has under the BHC Indentures to incur incremental secured debt and/or make investments in Unrestricted Subsidiaries, please see Bausch Health: Frequently Asked Questions on Potential Liability Management Exercises.

Market participants have recently been speculating as to whether the BHC Indentures would allow the Company to structure the new SpinCo financing as a double dip-type financing using Bausch + Lomb equity that would also have the benefit of a first lien claim on RemainCo assets. We recently discussed this possibility in Bausch Health: Can New SpinCo Financing Be Structured as a Double Dip?

As we mentioned earlier in this report, we assume that the new debt to be incurred in Proposal 2 would be incurred at the SpinCo entity holding the B+L stake (or at a subsidiary of SpinCo). Because Proposal 2 contemplates that the BLCO equity would be spun off to BHC shareholders (presumably through a spin of the equity of a parent entity such as SpinCo that is an Unrestricted Subsidiary), it appears that that the new financing in Proposal 2 would be non-recourse to the BHC credit. Accordingly, Proposal 2 apparently does not contemplate any double dip-type structure that would give the new money a parity lien claim on the RemainCo assets.

We are continuing to monitor the BHC credit closely, and will publish additional research on this name as additional developments arise.

— *Covenant Review*

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