

## Bausch Health Cos Inc

# 4Q wrap: better FY24E guide, though timeline to spin remains TBD

Reiterate Rating: UNDERPERFORM | PO: 7.00 USD | Price: 9.35 USD

## BHC remains focused on spin execution; timing TBD

BHC's FY24E guidance on total company / Pharma revenue came in +4% / +2% cons at the midpoint vs total EBITDA guide at +1% above cons, highlighting the need for increased investments to drive topline growth. The path and timeline to the proposed BLCO spin-off remains a key investor focus but the 4Q call was mainly a reiteration of past messaging that a) spin-off makes "strategic sense"; b) timing gated by factors that include ongoing litigation events but timeline offered. Near term, BHC expects an appeal decision on Xifaxan IP dispute vs Norwich in the next couple of months, but management caveated there are other spin-related factors beyond Xifaxan-IP. We raise our PO to \$7 (vs \$6 prior) on higher revenue/EBITDA based on FY24E guide and roll over EV/EBITDA multiples to '25E (vs '23E prior). We reiterate our Underperform rating given the collective uncertainties around execution/timing of a company separation (sole value unlocking mechanism for the stock, in our view).

## Up next, appeal court ruling on Xifaxan IP dispute in 1H

BHC expects Xifaxan IP appeal ruling around late 1Q or early 2Q, and the outcome of which should be important to when Norwich can launch its generic product. Best case for Xifaxan is loss-of-exclusivity in 2028. On the Granite Trust matter (tax dispute with IRS), BHC continues to expect the tentative settlement to be finalized in the coming months. The company did not provide an update on the fraudulent conveyance case.

## BHC plans Ph3 for amiselimod/S1P despite crowded space

On amiselimod (S1P), BHC laid out plans for next steps in 2024, including Ph2 data presentation at a medical meeting and Ph3 start in moderate to severe UC. BHC framed decision for initiating a Ph3 in moderate/severe UC (as opposed to mild/moderate) was guided by the Ph2 results and possibility to compete in the full spectrum of UC severity; BHC did not define any specific points of differentiation vs S1P's further ahead in development. On rifaximin RED-C, BHC expects to complete Ph3 enrollment in 1H. For both programs, we note there is no near-term data catalyst vs BHC expectation of launch timing in the latter half of this decade (2027 for RED-C, end of decade for UC).

## Framing 2024 outlook for key Pharma segments

FY24E topline guidance for implies +4% Y/Y growth for Pharma at the midpoint which assumes mid-single digit revenue growth for Salix (mainly Xifaxan) and International, double digit growth for Solta, and mid-single digit decline for the diversified business.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.28	3.59	3.98	2.70	2.93
GAAP EPS	(0.46)	(1.68)	1.08	0.72	1.30
EPS Change (YoY)	-25.5%	9.5%	10.9%	-32.2%	8.5%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	2.9x	2.6x	2.3x	3.5x	3.2x
GAAP P/E	NM	NM	8.7x	13.0x	7.2x
EV / EBITDA*	7.5x	7.6x	7.1x	8.4x	8.3x
Free Cash Flow Yield*	-47.6%	16.6%	40.7%	30.7%	32.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 22 February 2024 03:44PM EST

22 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	6.00	7.00
2024E Rev (m)	8,912.0	9,313.9
2025E Rev (m)	7,683.0	8,755.5
2026E Rev (m)	7,651.6	8,691.1
2024E EPS	3.78	3.98
2025E EPS	2.09	2.70
2026E EPS	2.38	2.93
2024E EBITDA (m)	3,206.3	3,275.8
2025E EBITDA (m)	2,498.9	2,760.7
2026E EBITDA (m)	2,537.7	2,772.3

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### Stock Data

Price	9.35 USD
Price Objective	7.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-3-9
52-Week Range	5.57 USD - 10.23 USD
Mrkt Val (mn) / Shares Out (mn)	3,415 USD / 365.2
Free Float	80.7%
Average Daily Value (mn)	20.62 USD
BofA Ticker / Exchange	BHC / NYS
Bloomberg / Reuters	BHC US / BHC.N
ROE (2024E)	300.4%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter <sup>TM</sup>	Medium

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See glossary of acronyms on page 3

# iQprofile<sup>SM</sup> Bausch Health Cos Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.5%	11.0%	11.4%	9.7%	10.3%
Return on Equity	521.1%	438.6%	300.4%	84.9%	57.5%
Operating Margin	34.5%	32.3%	32.3%	28.4%	28.7%
Free Cash Flow	(1,624)	568	1,390	1,049	1,112

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-1.2x	0.6x	1.1x	1.3x	1.2x
Asset Replacement Ratio	1.4x	1.2x	1.5x	1.3x	1.2x
Tax Rate	12.9%	13.0%	15.0%	16.0%	16.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	1.9x	2.1x	2.3x	1.9x	2.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,171	8,757	9,314	8,756	8,691
% Change	-3.1%	7.2%	6.4%	-6.0%	-0.7%
Gross Profit	5,806	6,221	6,638	5,974	5,930
% Change	-3.9%	7.1%	6.7%	-10.0%	-0.7%
EBITDA	3,068	3,045	3,276	2,761	2,772
% Change	-11.6%	-0.8%	7.6%	-15.7%	0.4%
Net Interest & Other Income	(1,450)	(1,326)	(1,288)	(1,300)	(1,200)
<b>Net Income (Adjusted)</b>	<b>1,194</b>	<b>1,309</b>	<b>1,460</b>	<b>999</b>	<b>1,089</b>
<b>% Change</b>	<b>-25.4%</b>	<b>9.6%</b>	<b>11.5%</b>	<b>-31.6%</b>	<b>9.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(166)	(611)	395	267	483
Depreciation & Amortization	147	186	160	163	168
Change in Working Capital	(600)	116	15	(17)	(17)
Deferred Taxation Charge	(195)	(200)	0	0	0
Other Adjustments, Net	(606)	1,296	1,062	855	687
Capital Expenditure	(204)	(219)	(242)	(219)	(209)
<b>Free Cash Flow</b>	<b>-1,624</b>	<b>568</b>	<b>1,390</b>	<b>1,049</b>	<b>1,112</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>144.8%</b>	<b>-24.5%</b>	<b>5.9%</b>
Share / Issue Repurchase	675	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(743)	0	0	(2,709)	(748)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	212	780	2,170	510	873
Trade Receivables	1,738	1,863	1,982	1,863	1,849
Other Current Assets	1,925	2,119	2,251	2,258	2,234
Property, Plant & Equipment	1,650	1,721	1,808	1,864	1,905
Other Non-Current Assets	20,797	19,590	18,636	17,883	17,288
<b>Total Assets</b>	<b>26,323</b>	<b>26,072</b>	<b>26,847</b>	<b>24,377</b>	<b>24,149</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	3,386	3,820	4,086	3,956	3,901
Long-Term Debt	21,215	20,918	20,701	17,774	16,805
Other Non-Current Liabilities	1,230	1,230	1,192	1,162	1,138
<b>Total Liabilities</b>	<b>25,831</b>	<b>25,968</b>	<b>25,979</b>	<b>22,892</b>	<b>21,844</b>
<b>Total Equity</b>	<b>492</b>	<b>104</b>	<b>868</b>	<b>1,485</b>	<b>2,305</b>
<b>Total Equity &amp; Liabilities</b>	<b>26,323</b>	<b>26,072</b>	<b>26,847</b>	<b>24,377</b>	<b>24,149</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Pharmaceuticals

## Company Description

Bausch Health is a global company focused on healthcare products ranging from pharmaceuticals (brands + generics), medical devices (contact lens) and over-the-counter medicines. BHC is focused on developing and commercializing products in three therapeutic areas: eye care, gastroenterology and dermatology. BHC's commercial operations fall into four operating and reportable segments: Bausch+Lomb/International, 2) Salix - gastroenterology, 3) Ortho Dermatologics, and 4) diversified products.

## Investment Rationale

We rate BHC an Underperform as we see challenges to value creation in proposed separation of the B&L (eye health) and RemainCo (pharma): 1) RemainCo - key risk is multiple compression as a stand-alone business as the company is highly levered to Xifaxan, which is at risk of earlier than expected (2028) LOE and we see very limited equity value in a >5x levered RemainCo, 2) B&L spin - execution risk

## Stock Data

Average Daily Volume 2,204,830

## Quarterly Earnings Estimates

	2023	2024
Q1	0.52A	NA
Q2	0.85A	NA
Q3	1.06A	NA
Q4	1.13A	NA

**Acronyms:**

BLCO: Bausch + Lomb (covered by Craig Bijou)

IP: intellectual property

IRS: Internal Revenue Service

S1P: drug target

UC: ulcerative colitis

RED-C: Delay of Encephalopathy Decompensation in Cirrhosis

## Price objective basis & risk

### Bausch Health Cos Inc (BHC)

Our \$7 price objective (PO) is based on a blended valuation, with 50% weighting to eventual spinoff valuation on SOTP basis (11x (peer multiple) of '25E Bausch & Lomb EBITDA), and 50% to blended company multiple that assumes spin delays lead to the market valuing the company as a single entity (6.3x of '25E EBITDA from total company assets based on diversified biopharma peers comp).

Upside risks to our PO: 1) outperformance of new product launches, 2) better-than-expected EBITDA growth, 3) strong performance of Bausch + Lomb segment combined with higher multiples assigned to eye care comps, including Cooper and Alcon

Downside risks to our PO: 1) underperforming revenue from key growth drivers, including eye care, Xifaxan or new pharma launch products, 2) margin compression - either due to greater than anticipated spend to support new brand launches or faster than expected erosion of diversified brands

## Analyst Certification

I, Jason M. Gerberry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculis Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
<b>NEUTRAL</b>				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
<b>UNDERPERFORM</b>				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viartis Inc.	VTRS	VTRS US	Jason M. Gerberry

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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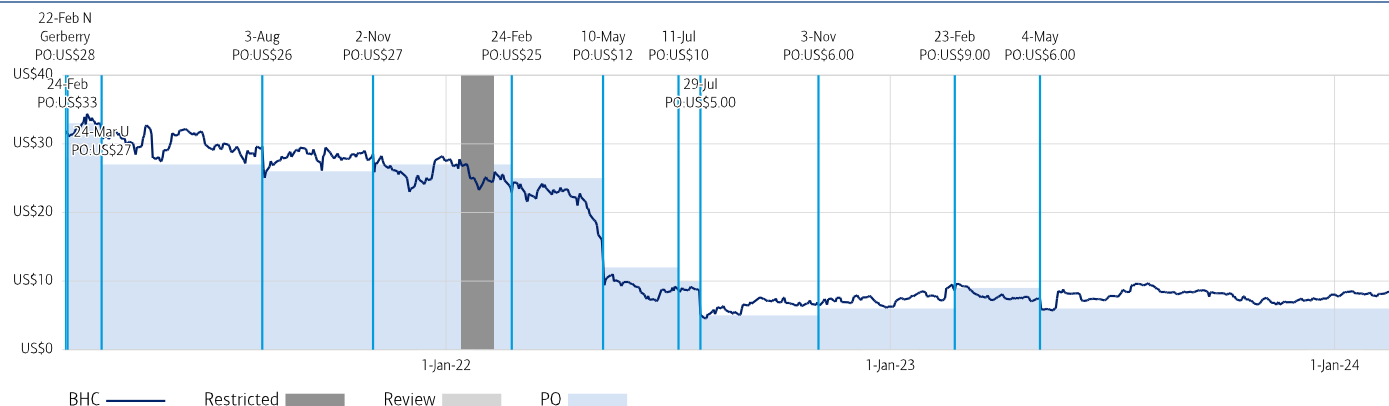
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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