

Bausch Health Companies: This Story Is Not Over Yet

Sep 6, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

On August 6th, 2020, Bausch Health Companies announced its intention to spin-off its eye health business into an independent publicly traded company. Bausch + Lomb will consist of Bausch Health's global vision care, surgical, consumer and ophthalmic Rx businesses, which had 2019 revenues of approximately \$3.7 billion and a CAGR of 4.1% (2017-2019).

Company believes that Bausch + Lomb is well-positioned to continue delivering consistent organic revenue growth across the globe, with more than half of its sales outside of the United States. The combination of pipeline expansion and established durable eye care brands, including BAUSCH + LOMB ULTRA®, Biotrue® ONEday, LUMIFY®, OcuVite® and PreserVision®, among others, as well as the launch of BAUSCH + LOMB INFUSE™ contact lenses, is expected to drive this growth.

Just before this announcement, on July 27th, 2020, hedge fund Glenview Capital Management disclosed that it accumulated a 5.9% stake in the company.

Capital structure for both companies is not defined yet. Bausch Health expects to report Bausch + Lomb as a separate segment beginning in the first quarter of 2021.

We believe that company could be valued at an EV/Adj EBITDA valuation multiple of x12. Based on an estimated Adj EBITDA (FY 2019) of \$1.09 bil and net debt of \$3.28 bil, shares of the new company could be valued at \$27.68 per share.

Even assuming a zero value for the remaining part of the business, current Bausch Health shareholders can achieve a return of 73% through spin-off of eye health business. Returns to equity shareholders from this restructuring process can be especially attractive. Creditors happen to be in a less fortunate position as a result, because through the spin-off process significant revaluation of Bausch + Lomb segment will happen, essentially transferring a lot of value to equity shareholders.