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Ghost of Valeant Haunts Bausch Health Spinoffs: ECM Watch

By Drew Singer & Cristin Flanagan / Bloomberg News / April 18, 2022

Investors are on tenterhooks for the potentially imminent launch of a pair of initial public offerings in Bausch Health Co.'s eye-care and skin-care units. But tens of billions of dollars in debt left over from its days as Valeant Pharmaceuticals remain a big question mark.

Shares in the pharmaceutical firm fell to the lowest since the end of 2020 on Monday, more than a month after Chief Executive Officer Joe Papa said Bausch is "ready to go" with IPOs of both units. Bulls say the closely watched spinoffs will unlock value by offering investors pure plays without the parent's current overhangs, which include a heavy debt load and an ongoing patent dispute. Others see continuing fraud litigation as another threat to the deal on top of the unresolved debt situation.

Bausch changed its name from Valeant in 2018 following the conviction of then-executive Gary Tanner for accepting a $10 million bribe in exchange for manipulating the company's takeover of a startup firm. New management has since arrived, but Valeant's creditors remain. Bausch has about $23 billion in total debt as of Dec 31.

"There are people who were burned by the old Valeant deal, so there's kind of a shadow hanging over it still," said Jim Osman, founder of The Edge Consulting Group -- a research firm that specializes in spinoffs. At the same time, "there's an overhang of value about it," he said.

A spokesperson for Bausch declined to comment. Top holders Icahn Enterprise and Paulson & Co. didn't respond to requests seeking comment.

Despite the Valeant stigma, analysts at The Edge say investors should buy shares of the parent in advance of the separations. They believe the presence of big-name holders like Icahn Enterprises and GoldenTree Asset Management indicate that some value will be created through the transactions.

"On one hand you see the amount of bad news and the depressed stock price; but on the other hand, you have quality management and shareholders," Osman said. "It's set up to be one of the greatest three-way splits ever in terms of valuation."

The initial offerings could happen as soon as there's a cool down in the volatility that's kept most IPO candidates on the sidelines, CEO Papa told investors in March. "We just want to make sure that we're in the appropriate market conditions," he said. The eye-care unit will be called Bausch + Lomb Corp., while the skin-care business will be called Solta Medical Inc.

The company had originally guided for a spin as early as the fourth quarter. Currently, the major U.S. indexes are down for the year and recent spinoffs have performed even worse. The Bloomberg US Spin-Off Index, which tracks recent carve outs, has slumped 9% this year. Other recent market entrants in the health-care space have also flagged with diabetes pure-play Embecta Corp. sinking 34% since its listing earlier this month and implant company Zimvie Inc.nearly flat after erasing most of a 63% surge in its trading debut in mid-February.

Sell-side analysts have been mum on the chances of more delays to the deal, but Bloomberg Intelligence analyst Holly Froum sees some risks from ongoing litigation.

"The spinoff likely won't be blocked by court order, but if plaintiffs' lawsuit is successful, liability for a securities fraud judgment, if obtained, may be imposed on the spinoff," Froum said.

The debt load has also kept away some long-only investors, Cowen analyst Ken Cacciatore said.

"The Valeant stigma is the debt, the spinoff cleans that up and allows the Bausch + Lomb business to thrive," he said in an interview.

If Bausch + Lomb were to trade at similar multiples to peers like Alcon Inc. or Cooper Cos.' CooperVision, it could have an equity value of $15 billion, or about $35 a share, according to Cacciatore. His model assumes no value for the remaining assets.

Others on the Street are critical of the new company's potential. "The eye-care business is just not as dynamic as its closest peers, especially from an R&D perspective," said Piper Sandler's David Amsellem.

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