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# Bausch Health Companies Inc. (BHC) CEO Joseph Papa on Q4 2021 Results - Earnings Call Transcript

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## Q4: 2022-02-23 Earnings Summary

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EPS of $1.27 beats by $0.12 | Revenue of $2.20B (-0.77% Y/Y) misses by $10.94M

Bausch Health Companies Inc. (NYSE:BHC) Q4 2021 Results Conference Call February 23, 2022 8:00 AM ET

**Company Participants**

Arthur Shannon - SVP, Head of IR
Joseph Papa - Chairman, CEO
Sam Eldessouky - CFO
Thomas Appio - President, Co-Head Bausch + Lomb/International
Scott Hirsch - CEO, Solta Medical

**Conference Call Participants**

DRL Exhibit 1175, Page 1 of 25
DRL v. Eye Therapies - IPR2024-00467

Ken Cacciatore - Cowen & Company
Chris Schott - JPMorgan
David Amsellem - Piper Sandler
Gary Nachman - BMO Capital Markets
Jason Gerberry - Bank of America
Greg Fraser - Truist Securities
Balaji Prasad - Barclays

**Operator**

Good morning, and welcome to the Bausch Health Fourth Quarter 2021 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Arthur Shannon, Senior Vice President, Head of Investor Relations and Communications. Please go ahead.

**Arthur Shannon**

Thank you, Anthony. Good morning, everyone, and welcome to our fourth quarter and full year 2021 financial results conference call. Participating on today's call are Chairman and Chief Executive Officer, Mr. Joe Papa; and Chief Financial Officer, Mr. Sam Eldessouky. In addition, Tom Appio and Scott Hirsch will be joining Joe and Sam for the Q&A portion of today's call. In addition to this live webcast, a copy of today's slide presentation and a replay of this conference call will be available on our website under the Investor Relations section.

Before we begin, we'd like to remind you that our presentation today contains forward-looking information. We would ask that you take a moment to read the forward-looking statement legend at; the beginning of our presentation as it contains important information. This presentation contains non-GAAP financial measures. For more information about these measures, please refer to Slide 2 of the presentation. Non-GAAP reconciliations can be found in the appendix of the presentation posted on our website.

Finally, the financial guidance in this presentation is effective as of today only. It is our policy to generally not update guidance until the following quarter and not to update or affirm guidance other than through broadly disseminated public disclosure.

With that, it is my pleasure to turn the call over to Joe.

DRL Exhibit 1175, Page 2 of 25
DRL v. Eye Therapies - IPR2024-00467

**Joseph Papa**

Thank you, Art, and thank you, everyone, for joining us today. We have a lot to cover, so I'll begin with an update on the Bausch Health strategic alternatives process and discuss the 2021 full year highlights. Sam Eldessouky, our CFO, will then review the fourth quarter and full year financial results in detail and discuss our 2022 Bausch Health guidance. Finally, I'll conclude by reviewing the business results before opening the line for questions.

As you can see on Slide 5, we continue to make great progress in our efforts to unlock value across the company. The most recent milestones where we raised new debt to refinance certain existing Bausch Health debt and announced a refinancing of our existing credit facilities, each subject to the B&L IPO to facilitate to B&L IPO in full separation, and we publicly filed the registration statement for the proposed IPOs of Bausch & Lomb and Solta Medical.

Our planning and preparations to launch the IPOs of Bausch & Lomb and Solta Medical are substantially complete. And we are prepared to move forward, subject to market conditions and other approvals and factors. After the IPOs are complete, we plan to distribute the remaining Bausch & Lomb shares to existing Bausch Health shareholders following the expiry of customary lockup achievement of target net leverage ratios and subject to regulatory approvals.

Turning to Slide 6. As we have said previously, we are targeting net leverage for Bausch & Lomb of less than 2.5x and in a range of 6.5% to 6.7 for the Bausch Pharma business at the time of the spin. We intend to achieve these target leverage ratios by paying down debt with cash generated from the Amoun divestiture that occurred in 2021, the IPO of Bausch & Lomb, a Bausch & Lomb debt raise and the IPO of the Solta Medical business.

We also expect to use the remaining value of Solta Medical to delever as well as cash generated from operations and improved working capital efficiency. I also want to note that beginning with the first quarter of 2022 earnings, we will be reporting our financial results in 3 segments: Bausch Pharma, Bausch & Lomb and Solta Medical.

Slide 33 in the appendix shows how the new segment structures line up against our current segments.

Turning now to Slide 8. We finished the year with total company organic revenue growth of 6% and reported revenue growth of 5% versus 2020. Importantly, strong adjusted cash flows from operations of more than $1.6 billion and cash proceeds from the Amoun divestiture helped us to exceed our goal of paying down more than $1 billion of debt in 2021.

DRL Exhibit 1175, Page 3 of 25
DRL v. Eye Therapies - IPR2024-00467

Our leading brands saw a strong performance and recovery in '21, including XIFAXAN with a reported revenue growth of 11% versus 2020 and TRULANCE, which reported more than $100 million of revenue for the very first time in 2021. The International Rx segment reported organic revenue growth of 7% versus last year.

And finally, we are delivering on near-term R&D catalysts with 4 new product launches in 2021 in addition to the XIPERE launch this quarter and the advancement of our late-stage clinical trials with statistically significant top line results for both NOV03 and our IDP-126, thanks to a great Bausch Health team effort. We achieved our goals in 2021 and entered 2022 well positioned for continued growth.

The full year and fourth quarter results demonstrate that we are successfully growing market share of key products and capitalizing on key growth drivers and catalysts, while taking steps to unlock shareholder value and create 3 great companies.

With that, I'll turn it over to Sam to cover the financial results in more detail.

**Sam Eldessouky**

Thank you, Joe. Just a reminder, before I discuss our fourth quarter results, when we talk about the organic revenue growth, we mean on a constant currency basis and adjusted to remove the impact of divestitures and discontinuations.

Now turning to our results on Slide 9. Our fourth quarter results build on our strong performance throughout 2021 and confirm the continuation of our recovery from COVID demonstrating the results of our businesses. In the quarter, we posted 3% organic revenue growth. For the full year, we posted 6% organic revenue growth. with our B&L business up 9%, our Salix business up 9%, International Rx up 7%, Ortho Derm up 1% and Diversified down 11%.

Now let me provide more details on each of our segments. Starting with the B&L segment. Fourth quarter revenue of $1 billion was up 7% organically. 3 of the 4 businesses within B&L put organic growth, starting with the Global Vision Care business, fourth quarter revenue of $227 million was up 9% organically, led by 21% growth in the U.S., which was driven by strength in our Biotrue ONEday alliances and continued growth in our market share of our daily SiHy and INFUSE.

International Vision Care was up 3% organically, driven by our brands, including Biotrue ONEday, Ultra and SofLens. We continue to see strong performance in our Global Vision Care business with a full year growth of 17% organically as compared to last year.

DRL Exhibit 1175, Page 4 of 25
DRL v. Eye Therapies - IPR2024-00467

Moving on to our Global Surgical business. Fourth quarter revenue of $198 million was up 10% organically, with the U.S. up 4% and international up 13%. The growth in our Surgical business reflects continued recovery in the number of surgical procedures in all our major markets.

For the full year, the Global Surgical business grew 22% organically as compared to 2020, with strong growth in the U.S., Europe and Asia.

Turning to the Global Consumer business. Fourth quarter revenue of $399 million was up 9% organically, with the U.S. consumer business up 7%. LUMIFY led the growth in the U.S. with 33% growth in the quarter. With this strong performance, LUMIFY exceeded $100 million in annual revenue.

Our eye vitamin brands, Ocuvite and PreserVision and our lens care brands Biotrue and renu multipurpose solutions also gained share in the quarter. The International Consumer business was up 11% organically, mainly driven by gaining market share and strength in ARTELAC and in our lens care brands renu and Biotrue multipurpose solution. For the full year, the Global Consumer business grew 6% organically versus 2020.

Finally, the Global Ophtho Rx business fourth quarter revenue of $177 million was down 3% organically versus fourth quarter 2020. The decline was mainly driven by the LOEs in LOTEMAX and the natural erosion of the generics branded products in the U.S. business. Excluding the impact of the LOEs, the Global Ophtho Rx business was up 4% organically in the fourth quarter.

In the U.S., our promoted brands benefit from expanded patient access. In the current quarter, VYZULTA saw 40% TRx growth versus Q4 2020. International Ophtho was up 27% organically driven by growth in EMEA and Asia.

Now turning to Salix. Fourth quarter revenue of $559 million was up 6% from Q4 2020. Performance was mainly driven by XIFAXAN, which was up 9%, driven by higher demand and higher net price. In the fourth quarter, XIFAXAN achieved a milestone by reaching $450 million in net sales, the highest revenue we've reported for the brand. XIFAXAN continues to demonstrate strong growth trends. Despite the long-term Care Canada being fully recovered to pre-pandemic levels. We're seeing a steady recovery in the long-term care channel, but nursing home occupancy rates remain low. We expect the recovery to continue throughout 2022.

TRULANCE was up 21%, driven mainly by volume, in part due to our successful efforts to expand mass care coverage for the brand. RELISTOR was up 21%, mainly from volume but also from an increase in net price. For the full year, the Salix business grew 9% as compared to 2020.

DRL Exhibit 1175, Page 5 of 25
DRL v. Eye Therapies - IPR2024-00467

Now turning to the International Rx segment. Reminder that during the third quarter of 2021, we completed the sale of Amoun, our Egyptian Pharma business. The international Rx segment was up 7% organically, with fourth quarter revenue of $276 million. The growth was mainly driven by strong performance in Canada, which was up 13% organically and Poland, which was up 16% organically versus Q4 2020. For the full year, the International Rx segment was up 7% organically.

Moving on to Ortho Derm segment. Fourth quarter revenue of $146 million was down 7% organically. The medical derm business was down 19%, mainly driven by lower net realized pricing. The Global Solta business was up 2% organically with strong performance in the U.S. and Asia. For the full year, Global Solta revenues were up 18% organically.

Finally, our Diversified segment fourth quarter revenue of $214 million declined 14% organically. Our Neuro business was down 9% due to lower volumes on MYSOLINE and Ativan, which benefited from a competitor supply issue in the prior year quarter, offset by growth in both Wellbutrin and Aplenzin. Our generics business was down 30% organically with the biggest factor being the natural erosion of volumes and net pricing as additional competitors enter the market and compete with our generic products. Finally, Dentistry was flat versus the prior year quarter.

Turning to the quarter and full year P&L on Slides 10 and 11. I just covered revenues, so let me walk you through key non-GAAP line items. Starting with the adjusted gross margin, which was up 60 basis points versus Q4 2020. Mix was a key favorable factor this store, which more than offset manufacturing headwinds and enabled us to absorb inflation impacts that we saw in the quarter.

Note that our full year adjusted gross margin is 71.6%, which is slightly above our full year adjusted gross margin guidance of 71%. With operating expenses, on an adjusted basis, SG&A costs were slightly higher by $17 million versus Q4 2020 as we return to a more normal level of promotion activity as compared with Q4 2020. Our full year adjusted SG&A was $2.41 billion, which was payroll to our full year 2021 guidance of $2.45 billion.

R&D was down in the quarter by 2%, mainly as a result of timing of spend. For the full year, R&D was up 3% to $465 million. Adjusted EBITDA of $909 million for the quarter was down 1% on a constant currency basis compared with Q4 2020. Excluding the impact of the Amoun divestitures, adjusted EBITDA was up 2%. A solid fourth quarter performance enabled us to post adjusted EBITDA of $3.472 billion for the full year, which is up 3% on a constant currency basis from 2020, which was at the high end of our final guidance range for 2021.

DRL Exhibit 1175, Page 6 of 25
DRL v. Eye Therapies - IPR2024-00467

For modeling purposes, I thought it may be helpful for you to understand how our 2021 adjusted EBITDA split between our key business. The 2021 adjusted EBITDA is roughly 24.7% for B&L, 4.3% for Global Solta and the remaining 71% is for our pharma businesses. Slides 12 and 13 were included to provide additional GAAP information in response to new disclosure requirements.

Now turning to Slide 14. During the quarter, we generated $24 million of cash from operations on a GAAP basis. As we disclosed during our second quarter earnings, we made a payment of $205 million for legacy legal settlements in Q4 2021. Also in the fourth quarter, we made a payment in connection with taxes related to the Amoun divestiture.

Adjusting only for the legal settlements, legacy legal settlements and separation-related costs of $50 million, the adjusted cash generated from operations in Q4 2021 was $279 million, bringing the full year adjusted cash flow to $1.657 billion. We're very pleased with the strong cash generation in 2021, which brought us above our final 2021 guidance of $1.6 billion.

Turning to Slide 15. We continue to make progress on our debt paydown.

During 2021, we repaid $1.3 billion of debt, net of $285 million revolver drawn in Q4 that we subsequently paid in Q1 of 2022 with cash on hand. Our focus and commitment to reducing our debt, combined with our strong performance in 2021, resulted in net leverage of 6.5x as of the end of the fourth quarter of 2021.

On Slide 16, we continue to make nice progress with our debt maturities by repaying the outstanding revolver in Q1 2022 with cash on hand, as of today, we don't have any debt maturities or mandatory amortization payments until 2025.

Now turning to our guidance on Slides 18 and 19. Our revenue guidance for 2022 is a range of $8.4 billion to $8.6 billion, and that represents organic growth of 3% to 5%. Considering the $185 million impact of the Amoun divesture in 2021 and the FX pressure based on current rates which we estimate to be $95 million, the base business performance is an improvement of $405 million. As we previously communicated, the LOE impact on our business continues to moderate and is much lower than prior years. We estimate the impact to be approximately $55 million.

Also to help in your modeling, we'll provided additional details on our organic revenue growth by business. We expect organic growth for the pharma business to be about 2% to 3%, for B&L to be about 4% to and 15% to 18% for Solta. Our adjusted EBITDA guidance for 2022 is a range of $3.45 billion to $3.6 billion. Concerning the impact of the Amoun divestiture of $65 million and the FX pressure, which we estimate to be $30 million, our adjusted EBITDA guidance at just 4% growth at the midpoint of our range.

DRL Exhibit 1175, Page 7 of 25
DRL v. Eye Therapies - IPR2024-00467

So with that, backdrop, let's go into the details of our full year guidance on Slide 19. We expect our adjusted gross margin to be roughly 72%, which is slightly favorable to our 2021 gross margin. At a macro level, we have seen gross margin pressure driven by inflation and supply chain pressure, which is consistent with what you have seen across the market. We're taking proactive steps to mitigate and overcome these challenges by taking measured price increases and through supply chain efficiencies. Also, product mix has an impact on the overall gross margin.

We expect adjusted SG&A to be in the range of $2.44 billion, which remains relatively flat year-over-year as a percentage of revenue. In the last few years, we have taken steps to optimize and manage our baseline cost structure. Our guidance suggests that we will benefit from the cost optimization that we achieved in 2021 and continue to leverage our cost structure to support the top line growth.

We are guiding to roughly $500 million in R&D for 2022, which is up $35 million from 2021. For interest expense, we're guiding to $1.4 billion. We expect our adjusted tax rate to be roughly 10%, and we expect full year adjusted cash flows from operations to be in the range of $1.7 billion.

Finally, we provide additional guidance details that will be helpful for you as you update your models. In summary, we're very pleased with our 2021 performance. We believe that the strong underlying momentum in the business will continue in 2022. Our 2022 guidance is based on our expectation of solid organic revenue growth and adjusted EBITDA growth, improved gross margin, optimized cost structure and strong cash flow generation.

Now back to you, Joe.

**Joseph Papa**

Thank you, Sam. Let me make a few comments on the business results, starting with Bausch & Lomb on Slide 21. Let me call out a few highlights first. Global Vision Care saw strength both in the U.S. and internationally, and we believe that the continued rollout of our SiHy daily lenses will be a tailwind in 2022 as we launched spherical and the multifocal lenses in many new markets.

Our SiHy daily lenses continue to accelerate sales and gain share. In the U.S., we ended the year with a 140% increase in fixed debt coverage. We now have over 13,000 customers. We also grew U.S. consumption sales by 70% in the second half of 2021 versus the first half. This not only exceeds our plans but builds a strong base for our future launch of the SiHy daily multifocal.

DRL Exhibit 1175, Page 8 of 25
DRL v. Eye Therapies - IPR2024-00467

In Global Consumer, LUMIFY became a $100 million plus brand in 2021 and achieved approximately a 50% market share in the redness reliever category. Global Surgical rebounded from 2020 as markets reopened and saw 25 reported revenue growth compared to 2020, driven by enVista, IOLs, Stellaris Elite consumables and instruments. Geographic growth in Europe was driven by strong demand in The U.K., France and Spain.

I want to spend a moment on LUMIFY on Slide number 22. We have illustrated the power of our fully integrated B&L eye care platform to successfully launch, promote and drive the performance of our products.

In the case of LUMIFY, we began with a highly differentiated product backed by clinical results. Our team was able to drive education and awareness for the product by collaborating with eye care professionals while driving awareness among beauty enthusiasts with a strong television, public relations and social media presence.

We are then able to leverage the 400-plus person Bausch & Lomb sales force for detailing and distribution directly to optometrists and ophthalmologists and achieved the distinction of being the number 1 physician recommended product in the redness reliever category. These efforts, along with a 97% customer satisfaction rate helped to drive patient demand which we're able to meet through the ongoing partnership with retailers and through e-commerce channels. We believe these results speak for themselves. After launching in May of 2018, LUMIFY became a $100-plus million brand in 2021 with approximately a 50% market share in the redness reliever category.

LUMIFY's performance is one example of the benefits of a fully integrated eye care platform, and we expect to continue to leverage this key Bausch & Lomb differentiator with future products and innovations. The charts on Slide 23 illustrates the ongoing growth and progress B&L has made over the last few years.

Moving now to Slide 24, I'll start by calling out a few highlights for Bausch pharma. Salix reported revenue growth by 9% compared to fiscal year '20, driven by XIFAXAN, TRULANCE and RELISTOR. We are also driving pipeline advancement for Salix with the initiation of a Phase III clinical trial of the rifaximin SSD formulation and a Phase II trial of amiselimod.

International Rx revenue grew by 7% versus last year. Ortho Dermatologics reported statistically significant top line results from the second pivotal Phase III trial of IDP-126, Finally, in Diversified products, Wellbutrin and Aplenzin saw reported revenue growth of 16% versus the prior year quarter on a combined basis, driven by net realized pricing on both products and higher Aplenzin volume. And I'm happy to say that Aplenzin also has now crossed the $100 million product level in 2021.

DRL Exhibit 1175, Page 9 of 25
DRL v. Eye Therapies - IPR2024-00467

Dentistry saw reported revenue increase by 38% in 2021 compared to a full year '20. As a catalyst for the business, we just launched the OraFit aligner yesterday. We're very excited about this opportunity.

On Slide 25, XIFAXAN fourth quarter revenue of $450 million was the highest quarterly reported revenue on record. NRx market share also grew to 87.2% in the fourth quarter. And while nursing home occupancy levels continue to weigh on XIFAXAN's recovery, we believe this represents a potential tailwind for 2022 as nursing home occupancy returns to pre-pandemic levels.

Like XIFAXAN, TRULANCE finished the year strong and generated the highest quarterly revenue on record in the fourth quarter of 2021. TRULANCE 2021 total prescription volume grew by 23% versus 2020 and outpaced the market growth of approximately 4%.

I want to spend a minute on TRULANCE on Slide 26. Since we acquired the product for approximately $180 million in 2019, the Bausch Health team successfully implemented strategies to improve market access and physician targeting while growing geographic footprint, which resulted in more than 120% TRx growth since acquisition, as you see on the slide on 26. We also launched TRULANCE in Canada earlier this month. We're proud of the team's coordinated efforts to grow TRULANCE into a $100 million plus brand and believe there's a lot more we can do here.

On Slide 27, we show a strong TRx and new Rx share market share gains we achieved last year for XIFAXAN, TRULANCE and RELISTOR. We believe these gains are a great leading indicator of the overall strength of our gastro and neurology product portfolio.

Turning now to Slide 28, International Rx. This business has a very diverse portfolio of more than 500 prescription products. In the full year and fourth quarter of 2021, this business grew organically by 7% compared to the prior period. We've shown the revenue breakdown by region on the top right and listed these 3 products in each region along with the evolution index, which shows the growth of these products is outpacing the market growth rate.

Moving on to Solta Medical on Slide 29. First, we announced the public filing of Solta Medical registration statement on February 8, and we are substantially complete in our preparations and planning for the Solta Medical IPO. The Solta business had a very strong 2021 compared to last year, ending the year with a 22% reported revenue growth driven by 26% consumable organic growth for the year.

DRL Exhibit 1175, Page 10 of 25
DRL v. Eye Therapies - IPR2024-00467

As we noted on the third quarter call, the comparison with 2020 is denormalize as COVID-related shutdown in 2020 shifted our selling days into the second half of 2020 and skewed the comparison. However, as a reference point, on a more apples-to-apples basis, revenue for the fourth quarter of 2021 was 39% higher than the normalized 2019 fourth quarter, and it grew sequentially over the third quarter of 2021 by 20%.

In the U.S., growth versus 2020 was impressive with a 46% year-over-year growth. Clear brilliant reported revenues grew by 100% versus 2020, primarily due to the successful launch of our Clear and Brilliant touch in the U.S.

On Slide 30, we have listed the key highlights for the company, showing in particular Bausch Pharma, Bausch & Lomb and Solta Medical. For Bausch Pharma, we have a differentiated product portfolio. We have a global presence in approximately 70 countries. We have strong cash flow to support delevering and investment. We have the advancement of the pipeline opportunities, including novel rifaximin formulations. We have a global infrastructure that can be leveraged to pursue a robust business development agenda and a fit-for-purpose operating model supporting top line acceleration and operating margin expansion.

Moving now to Bausch & Lomb. We're going to build on the strong momentum with key franchises and the continued rollout of our SiHy daily lenses in new geography. We also anticipate the launch of a 3D microscope. We plan to build out our premium IOL platform, launched the next-generation eyeTELLIGENCE ecosystem. We continue to roll out VYZULTA in additional international markets. We have the U.S. launch of XIPERE an NDA filing exceptions for NOV03; and finally, aBLA filing acceptance for Lucentis biosimilar is also planned for 2022.

Next, Solta Medical, which has posted an impressive 32% revenue CAGR from 2018 to 2021, we believe proves the market opportunity for Solta brands is sustainable and will still have substantial room to grow. Key highlights for Solta, our strong double-digit growing aesthetics market.

Cross-selling programs include this full Solta product portfolio, the geographic expansion both in Europe and Latam and also product enhancements and next-generation launches. Lastly, of course, we have organic and inorganic growth opportunities. As you can see, each of these business segments have a variety of initiatives, products and near-term catalysts to drive growth.

To wrap up, we've made great progress in our efforts to unlock value across our company. In addition to completing the preparations and launching of the IPOs of Bausch & Lomb and Solta, we grew market share for our key products. We paid down debt using strong cash from operations, and we advanced our scientific innovations.

DRL Exhibit 1175, Page 11 of 25
DRL v. Eye Therapies - IPR2024-00467

Looking ahead, our focus is on significant debt paydown, separating into 3 publicly traded companies, driving execution in 3 large distinct and addressable markets and continuing to focus on innovations for the future.

With that, operator, let's open up the line for questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Our first question comes from Ken Cacciatore with Cowen & Company.

**Ken Cacciatore**

I was wondering if we could try to tighten down the timing. It looks like the order you've established on Slide 6. Can you give us a sense of timing? And is there anything in the current markets? I know we're subject to market condition, but I would assume we're not seeing anything currently that would kind of skew the timing. So that would be great to review.

And then also one of the questions that we're constantly getting is how do we close the real or perceived operational and a real valuation discount to your peers. Can you talk about from the Bausch & Lomb business when you get standalone, Joe, any first priorities as steady as we go, really what we need to accomplish here? Is there any kind of low-hanging fruits in terms of priorities that you want to address when you get standalone?

**Joseph Papa**

Great questions, Ken. I'll try to make sure I get them all, if I leave any out, please remind me. On the question of our overall timing of the IPOs, I think we tried to lay out the specifics here. We are substantially complete in all the information that needs to get accomplished. To be clear, we will continue to update our financials with the SEC as we now completed the fourth quarter, we'll first submit those fourth quarter reports to the SEC on a timely basis.

But we'll be ready depending on market conditions to go with that revised financials.

Sometime, let's call it, mid-March, we'll be ready for mid- to end of March to go forward with the IPOs both for the Solta and for the Bausch & Lomb IPOs, we are substantially complete on both of those. Obviously, we will make sure we manage that in a prudent way to maximize shareholder value as we think about the overall market conditions that we face for these 2 IPOs, but we're excited. We think we've done all the work that needs to get done in terms of looking at the opportunity.

DRL Exhibit 1175, Page 12 of 25
DRL v. Eye Therapies - IPR2024-00467

Obviously, we've got to make sure the markets are correct. We wanted to do this with urgency to be clear, but we also want to make sure we maximize the value for our shareholders.

On the question of the B&L and some of the valuation discount to peers, our expectation is that as these companies are separated the 3 independent pure-play eye health company, a Solta Medical aesthetics company and the Bausch Pharma global company, we believe that the market will have a better way to evaluate the total of these companies as well as the amount of debt paydown that we will realize through the IPOs and through the B&L debt we put on B&L by reducing that overall quantum of that, we think that will help in terms of valuation.

The second thing is, as we certainly execute on these IPOs, we believe that, that also will help the market look at the pure-play Bausch & Lomb, for example, versus the peer company. So I think all those things are going to help the marketplace as they assess the overall valuation of the B&L pure-play eye health company, the Solta Medical aesthetics company as it compares with the likes of the other medical aesthetics company and overall, the Bausch Pharma business.

On the question of -- I think the last one was the priorities for B&L once we're a standalone, obviously, we will continue to focus on the execution of the business. We think that's an important part of it. We talked about some of these new products beside high daily lens, as an example, and the launch of that product across the globe as well as launching the multifocal products. So all those things are going to be the absolute focus on how we will move forward.

We do believe, though, that as Bausch & Lomb goes out as a pure-play eye health company with an improved balance sheet, it will give us more flexibility to look at additional inorganic growth as well as the organic growth that I mentioned. So I think it's those types of things that we'll look at from a priority point of view, as we have a little bit more flexibility with the overall Bausch & Lomb balance sheet as we think about the future.

So clearly, look at B&L as a balance of both growth organically, and we'll get potential bolt-on opportunities for inorganic. I think I got them all, Ken. Let me go to the next question, please.

**Operator**

Our next question comes from Chris Schott with JPMorgan.

**Chris Schott**

DRL Exhibit 1175, Page 13 of 25
DRL v. Eye Therapies - IPR2024-00467

Just 2 for me. I guess, first, can you talk a little bit more about Solta dynamics in the quarter? You're obviously still seeing healthy kind of 2-year growth, that did look like growth slowed a bit as we went through 2021, if we kind of look at that kind of 2-year CAGR against the 2019 maybe more normalized number. So just elaborate a bit more what's happening there and maybe just help bridge out to that 15% to 18% growth in 2022 in light of that trend?

And then my second question is just on maybe another kind of timing question. I guess if for whatever reason the Solta or B&L IPOs don't allow you to raise as much capital as you're expecting. How does that affect the broader separation plans? I guess does that just – if we're in a situation like that, does that mean we just have to wait for the company to organically delever a bit before you can fully spin off P&L? Or is there any maybe shorter-term flexibility on some of those leverage targets that you laid out?

**Joseph Papa**

Thank you for the question, Chris. I'm going to – Scott is on the line. I'm going to ask Scott to address that Solta dynamics in the quarter. We obviously are very pleased with the overall growth for the full year, notwithstanding some of the dynamics. But Scott, do you want to talk about Solta and then I'll take the comment about the IPO timing?

**Scott Hirsch**

So for Solta, just to reiterate some of the metrics, 2021, we saw 22% reported, 18% organic growth with consumables really comprising a big piece of it, 26% of the growth year-over-year in Clear and Brilliant touch, which was launched in the U.S. in 2021, showing 100% growth year-over-year. So many of our performance goals are hitting right where we're aiming despite some of the global Omicron shutdowns and the carve-out structuring demands, which, as Joe mentioned, manifested into the S-1 filing earlier this month.

So overall, I'm incredibly pleased with how on target execution is with so much going on.

With respect to the comps over 2020, as Joe outlined in his remarks, right, the phasing of our 2020 numbers were impacted with COVID shutdowns in the first half, pushing our selling days substantially into the second half of 2020. That makes for an apples to oranges comparison for this cycle, which is why I would point you to the annual metrics, just split that out and they're really strong.

For our growth guide, right, there's a few underlying factors. First, obviously is demand, and demand has been incredibly strong. In fact, in fourth quarter, our syndicate consensus had about 10% below where we finished off. And so we really came in nicely relative to expectations, and we also finished with probably another, I would say, a little short of $10 million or $9 million of incremental back orders and demand that's really out there.

DRL Exhibit 1175, Page 14 of 25
DRL v. Eye Therapies - IPR2024-00467

And it leads to my second point, which is, as I said before, we're a premium business line. And if we put a machine in every store front that wants one in an aggressive form, those storefronts start competing down price against each other, which is just something we don't want.

Solta has been in this business for 20 years, and we're building a long-term platform in aesthetics with great clinical results and really strong economics for practitioners. I'm really proud of the global footprint that we're building out and the tax structure, which means that we have a really long-term focus of where we're placing equipment and then really driving consumables at the ratio, which is now approaching 73% of revenues, which I think is the true differentiator of the business, and that's where a lot of our strength is coming from.

So lastly, I'd say there's a dynamic, as Sam mentioned, between price and supply, I think it's well known now that the supply chain for electric component trees in high demand, and we're making sure that we have a balancing act with price as well as ensuring that we're meeting all the needs of our customers. And so net-net all of it is a really strong economic play on what we're targeting with metrics, right in the high teens to 20% levels, and I think we're on track for it.

**Joseph Papa**

Chris, I'll take the second part of that question. And Sam, if you want to add anything, please do. But I think I want to start with, once again, we are substantially complete in our preparations for the IPO of both Solta and Bausch & Lomb, which we obviously think is the first very important step being complete. And obviously, we have a high degree of confidence in the value opportunities for those – each of those Solta IPO and the Bausch & Lomb IPO.

Having said that, number two, we clearly want to make sure we move expeditiously but we're looking to maximize the shareholder value creation opportunity in each of those businesses. So we're not going to be reckless in the timing. We want to move expeditiously, but not be reckless in that timing. So we're going to look to monitor markets and work with our advisers to make the right decisions there.

Third point I want to make, because I think it's an important comment, is that each quarter that we stay together, we will increase the amount of cash we generate and that cash will go substantially to pay down debt, which obviously moves us forward in the process of deleveraging the company. So all those things will be part of the considerations as we think about it. But as we've stated publicly, our view for Bausch & Lomb is that we will IPO something less than 20%. We believe that's the most efficient way to do Bausch & Lomb is be very tax efficient for us. But we can obviously look at less than 20% as well depending on market conditions.

DRL Exhibit 1175, Page 15 of 25
DRL v. Eye Therapies - IPR2024-00467

So I think we're going to be flexible thinking through this. Our overall North Star goal is to maximize shareholder value creation, and that's the way we're going to look at this. Obviously, we want to move as quickly as we can as well. Sam, anything you want to add to what I said?

**Sam Eldessouky**

Joe, I would just add that – and Chris, if you look at how we ended 2021, the fundamentals of the business are very strong, and we're carrying that momentum with us into 2022. And that's really given us sort of an excitement that, as we move forward in 2022 between our performance in '21 and the guidance that we just provided in 2022, we believe that we'll be able to generate strong business results as well as cash that will help us also to delever as we go forward.

**Operator**

Next question will come from David Amsellem with Piper Sandler.

**David Amsellem**

I had a few questions on the pharma business. So first, I appreciate the pipeline update here, but we're all aware of the eventual LOE on XIFAXAN. So I guess with that in mind, how do you think about biz dev in M&A? Obviously, the business is going to be highly levered, but what do you think you can do there? And what kind of sense of urgency do you have in terms of bringing in assets for the pharma business? So that's number one.

Number two, on Ortho Derm, obviously, in the past, you had some high hopes for assets here. It's a smaller portion of the mix. Can you just talk generally, Joe, about the fit of Ortho Derm within the broader pharma business? Is that something -- are those assets you would look to divest, given the headwinds? And just talk generally about, again, where it fits and the future of that segment within the broader pharma business?

**Joseph Papa**

Sure. I'll start. But Tom, you might want to also add. Tom Appio is with us, he can also add some comment. First of all, on the business development, I can tell you that Tom Appio and Tom Vadaketh, our new Bausch Pharma's CFO have been very, very active in thinking through business development and opportunities for the future and in terms of some of the things they've been looking at and thinking about. Obviously, we're going to have to balance that with the ability to pay down debt. But there clearly is the sense of urgency in thinking through that as we think about the loss of exclusivity of the XIFAXAN in 2028. So that's something that they're thinking their way through.

DRL Exhibit 1175, Page 16 of 25
DRL v. Eye Therapies - IPR2024-00467

Clearly, though, I think one of the slides we included in the presentation was TRULANCE, a product that we acquired for approximately $180 million. And you can see it's already generating over $100 million of revenue. Things like those type of bolt-on opportunities we think are going to be the perfect type of programs. I'm going to probably ask Tom to speak specifically before we go to Ortho Derm but a little bit maybe about some of the things he's been able to do in the international pharma business and some of the products that he's been able to acquire help build that segment of the business as well. So maybe talk a little bit about the international pharma business and the past success you've had in predictor of the future.

**Thomas Appio**

Yes. So when I look at the R&D pipeline, clearly, we'll have to accelerate the R&D pipeline. And as Joe pointed out, clearly, there will be a balance between paying debt versus the assets that we can bring into the organization. When I look at it, clearly, we have a wonderful footprint in GI with our Salix business, and we've already started screening opportunities that we could take a look at there in adjacent categories as well to be able to leverage our footprint there and our scale.

When we take a look at the business internationally, we have, as we said in the presentation, in over 70 countries, we have scale in Eastern Europe, Latin America and Canada. And over the last few years, we've been able to do many deals that we call -- I would call tuck-in deals that are -- that bring us revenue and EBITDA at reasonable rates and reasonable prices, given the fact that with the scale that we have and be able to leverage that, we already have many deals that are sitting there that we can continue to execute on.

And that's why I see an opportunity to leverage the international business with the scale that we have and the ability to grow it with no LOEs. So it's going to be a balance, of course, between the U.S. business and the international business and then paying down debt. We'll have to be extremely focused of what we bring in and making sure that we do exquisite due diligence on any deals that come in to make sure that we have success.

**Joseph Papa**

Tom is a little modest. He's got 45 products that he is planning for 50 different markets in the next 5 years that he's expecting to launch, and I think that's going to be a really important part of what he's done historically, both what he can do for the future as well. So you'll see that on Page 35 of our presentation.

DRL Exhibit 1175, Page 17 of 25
DRL v. Eye Therapies - IPR2024-00467

And then the other question was on the Ortho Derm business. Does it fit within the pharma business? I think the answer is still yes. We will continue to look at all opportunities, though, in terms of looking at our portfolio. But as we sit here today, we've got a new product, IDP-126 that we have now completed 2 Phase III clinical trials that have met their primary end points. We do expect to submit that NDA in the second half of 2022. So we're excited about what that means in terms of the opportunity in addition to what we've previously said.

And I can't leave this without also commenting, David, as you know, the plans we have for the rifaximin novel formulations and the MSL model, as we mentioned in the call, also are a big part of that organic story that we're putting together. So thank you for the question. Operator, next question please.

**Operator**

Our next question comes from Gary Nachman with BMO Capital Markets.

**Gary Nachman**

So Joe, when you say actively monitoring market conditions for B&L and Solta IPOs, do you see the conditions or receptivity to those IPOs being very different? Is it more likely one will happen before the other? And if market conditions are not good, how long can this potentially be on hold beyond the March time frame that you just outlined?

And then with all the moving pieces and changing dynamics on capital generation for the spins, why are you confident you can still get to the leverage targets that you laid out a bunch of months ago? Are you starting to think any differently about those targets at all? So if you could just walk through your confidence there that would be great as well.

**Joseph Papa**

I'll start with -- a lot of good questions there. In terms of looking at the market conditions for both IPO, once again, I want to start with -- we have substantially completed the preparations for both the B&L IPO and the Solta IPO at this time, which I think that's important. We obviously will need to update our financials, which we'll do. But essentially, the mid-March, end of March timing is what we are currently contemplating.

DRL Exhibit 1175, Page 18 of 25
DRL v. Eye Therapies - IPR2024-00467

Obviously, the market conditions can change, and we're going to work with our advisers on that particular question as to when to go forward. What I will say is that we're balancing 2 things. Number one, the desire to move expeditiously in terms of moving forward these IPOs to unlock what we believe is significant shareholder value. So we would like to move expeditiously. Having said that though, the bigger commentary that goes along with that is to maximize the shareholder value creation opportunity. So we're going to balance those 2 things as we think about how we go forward with these IPOs.

I think part of the question you're asking is, is there a different market potential for each of these IPOs, yes, they are different IPOs. They have -- one is a pure play Bausch & Lomb eye health business. The other one is a Solta Medical aesthetics business. There's differences in valuation in terms of overall valuations, in term relative size. One of them is, a ballpark $4 billion business in terms of revenue. The other was $350-plus million revenue business.

So depending on which one we're talking about, there's going to be a different market for each of those. But both of them, we think, are exciting opportunities. And once again, being a pure-play eye health business or a pure-play medical aesthetics, we think there's great opportunities for both of them.

How long will we wait in terms of the March time line? I think, once again, I'm going to just simply stick with the point that we want to move expeditiously, but we're also looking to maximize our shareholder value creation across the entire Bausch Health Company.

Our confidence in getting to the leverage targets would change them? The answer to that is simply we are highly confident we will get to these leverage targets.

We are not going to change them. We are looking at these leverage targets being Bausch & Lomb at less than 2.5x leverage and Bausch Pharma at that 6.5x to 6.7x is the leverage target that we've spoken about in the past, and we'll stay with those leverage targets as we look at them right now.

Obviously, the important thing that would change to that is when we actually do the full separation is the only question that's going to depend upon, of course, our performance and our ability to raise the capital through the IPO, so the Bausch & Lomb business, the Solta business and the amount of incremental debt that will put towards the Bausch & Lomb 2.5x leverage. I think I got all your questions, Gary. Thank you very much for the question.

**Operator**

Our next question comes from Jason Gerberry with Bank of America.

DRL Exhibit 1175, Page 19 of 25
DRL v. Eye Therapies - IPR2024-00467

**Jason Gerberry**

Just wanted to ask about the XIFAXAN patent litigation situation. And basically, what can you offer Alvogen to try to drive a settlement? As we look at the situation, trying to offer early market entry versus the January 2028 entry data of the other generic settlements, we just pull forward the other generics, I would assume. And I was also looking at a settlement to launch alongside 3 other generics probably is not hugely valuable to Alvogen.

So just sort of curious what you can offer incrementally? And if you can't drive a settlement and you have to go to court, just curious, and we could get a decision by the end of the year in worst case, if that goes against you, how does that impact the ability to spin off P&L? Because I know B&L spin-off would occur something like 6 months after the IPO. So just curious, given XIFAXAN sort of really important to absorbing a lot of the debt for RemainCo?

**Joseph Papa**

Sure. Very good question. Maybe I'll just review a couple of the facts and get to your specific question. There is, in fact, a planned trial with Norwich on the XIFAXAN intellectual property, and that's planned for March 21. No back up now in terms of how we view this, number one. We believe we have very strong intellectual property for the XIFAXAN product. We have 26 patents. We obviously believe very strong intellectual property.

Number two. As you appropriately pointed out, we have previously visited this question 3 times before. We settled with Teva, a very leading generic company for 2028. Number two, we settled for Sandoz, a leading generic company for 2028. And number three, Sun Pharmaceuticals, a leading generic company, we settled for 2028. I think there's a theme there. These are 3 very strong, very good generic companies. They've reviewed our intellectual property that we've had the conversations and we settled with them for 2028. I think the -- my view of been around the business for over 30 years. Teva, Sandoz and Sun are very capable, very competent companies.

They've looked at intellectual property, and they've made the decision to settle for 2028. So we feel very good about our capabilities here in terms of our ability whether to settle or to go to trial, we feel very strong about our position. And I think it's certainly indicated by not just my point of view, but the point of view of what Teva, Sandoz and Sun previously decided.

DRL Exhibit 1175, Page 20 of 25
DRL v. Eye Therapies - IPR2024-00467

As to the question of how this could impact the B&L spin off, once again, we feel very confident in our abilities to prevail in this trial. The other thing though that has happened since we prevailed or since we settled, let me say that, one thing has happened since we settled with Teva is settled with Sandoz, and we settled with Sun for 2028. We've also seen the FDA make a decision to add to the rifaximin product guidelines -- product-specific guidelines, and they've added an additional requirement.

So we think that even strengthens our position for 2028 when the FDA put forth an in-vivo bioequivalency study requirement. So we feel very good about our situation. Obviously, it's up to whether we settle or whether we go forward with the trial. I'm not going to comment specifically on that, but we like our intellectual property position and as evidenced by decisions that Teva made, decision that Sandoz made and decision that's Sun made.

**Jason Gerberry**

Joe, if I can just quickly follow up. Can you just confirm in a worst-case scenario if you lose on the patent litigation, there's nothing in the debt covenants as it pertains to the RP basket that would preclude a spin-off?

**Joseph Papa**

The only thing that I'll say on that is that relative to the full spin-off, we want to make sure we hit the debt leverage ratios that I talked about previously, the 6.5x to 6.7x for the Bausch Pharma. So we'll obviously consider that. But otherwise, we have the ability to go forward. But Sam, anything you want to add to that question?

**Sam Eldessouky**

No. You covered it well, Joe. And Jason, just the covenant. The way I look at it is, we are in full compliance today with the covenants. We're watching the covenants and as we go forward with our strategic alternatives and we're going to continue to be in compliance with that.

**Operator**

Our next question comes from Greg Fraser with Truist Securities.

**Greg Fraser**

DRL Exhibit 1175, Page 21 of 25
DRL v. Eye Therapies - IPR2024-00467

I was wondering if you could provide some color on the growth assumptions for the Salix business and specifically XIFAXAN that's contemplating in the revenue guidance? And then on cash flow, how much do you anticipate pay in 2020 related to the settlement of legacy litigation? I'm just trying to get a sense for how much free cash flow you'll have available to deploy towards debt reduction?

**Joseph Papa**

All right. I'll take the growth assumptions for Salix business and specifically XIFAXAN. Obviously, we're very pleased with the overall growth that XIFAXAN showed specifically the record revenue that we saw in the fourth quarter. Our view of the growth for Salix business will be a balance. It will be a balance of the TRx growth that we've seen with XIFAXAN and then also the ability for the XIFAXAN to -- we've achieved certain pricing. I haven't talked about it, but we did take pricing on our prescription products and some of our consumer and vision products early in January of this year. So we do have that pricing that is part of the overall growth assumptions for Salix. So -- but also for the rest of our business, I probably should say.

So it's going to be a balance. It's going to be a balance of TRx growth as well as what we expect to have as a realized pricing. I remind you that when we take a price increase for XIFAXAN specifically, if we take somewhere in the 7% range, we expect that we'll realize approximately 50% of that in terms of a net pricing. It's going to vary firm product to product, year-to-year, but a ballpark way to think about it is about half of the price we take will be a net price adjustment. On the second point, Sam?

**Sam Eldessouky**

Greg, on the cash flow, let me just remind you that we have roughly about $1.5 billion of cash sitting on our balance sheet as restricted cash. And that's really dedicated towards the litigations and legal settlements. We expect that to start going out. We've already seen disbursement out of that balance, and we'll continue to see that in 2022. The timing exactly when it's going to happen in 2022 is not really going to be clear because it's in the hands of the judge and multiple administrative processes.

From an overall cash flow, I'm just getting -- take the opportunity just to comment on overall cash flow because you touched on it, the $1.7 billion that we're guiding to, the way you think about it, it's really running on the strength that we built in 2021 from a cash conversion. We roughly convert about 47% of our EBITDA to adjusted cash. And that's really up about 5% from where we were in 2019, which was running the low 40s. So we're continuing to run with that high level of cash conversion, which is really a very strong thing that we're very pleased with.

DRL Exhibit 1175, Page 22 of 25
DRL v. Eye Therapies - IPR2024-00467

**Joseph Papa**

Thank you, Sam. Operator, we have time maybe for one last question, please.

**Operator**

Our last question will come from Balaji Prasad with Barclays.

**Balaji Prasad**

I'll just restrict my set to one question. With regard to the guidance that you provided in Bausch & Lomb of 4% to 5% growth, can you contextualize this with broader industry trends that you're seeing and also the upside and downside risk to this guidance? If you could also maybe compare this number with the guidance provided by one of its peers, Alcon with the 7% or 9% growth. And what do you see are the key differences between these 2? That would be great.

**Joseph Papa**

So I'll start, but Sam, you may want to add as well. Number one, as we think about the opportunity, we're excited about what we see in terms of the overall the Bausch & Lomb opportunity. The upside for us is going to be -- we're seeing some very significant growth in the Bausch & Lomb on the consumer side of the business, for example, in consumer eye health area, we're seeing market growing somewhere in that 7% range. So that's a real positive indicator for us.

Number two, we are seeing some pricing in our overall B&L business pricing opportunities in both the vision business as well as what we're seeing on the consumer side. And of course, we've also seen some on the pharmaceutical prescription side of our business. We think that those are things that we're continuing to monitor, and we're looking at selected pricing in each of those categories that's going to help on the overall and would be probably on the upside depending on what happens to the overall portfolio.

So seeing clear growth in the consumer side of the business, seeing clear growth in the Vision business, especially for us, the opportunity as we're launching our SiHy daily product. We think that's a very important driver of the 2022 opportunity as we launch both the spherical and the multifocal product. So I think all those will be some of the critical part of the P&L guidance as we're thinking about the overall question.

The only other thing that -- Sam, is anything else you want to add to this quick question or --

**Sam Eldessouky**

DRL Exhibit 1175, Page 23 of 25
DRL v. Eye Therapies - IPR2024-00467

No, you covered it pretty well, Joe. I'll -- in terms of the guidance, I will look at that we're striking a balance between the positive business performance that we see in 2021 and how is that momentum is going and carrying us into 2022. So we're very excited about that. We're also balancing it with positive trends that we're seeing in the overall market, where in Surgical and as well as in Vision Care and Consumer business.

And we're excited about the new launches that we're going to be seeing in 2022 for ophthalmology and going to 2023. So we're bouncing all those factors with, I'll call it, the macroeconomics and the different situations that emerged and making sure that it is factoring in the positives and the negatives as we went through our guidance.

**Joseph Papa**

The only thing I'll add to -- I think the last part of your question was the Alcon Cooper comparisons and what they're seeing. I can't obviously speak for them. But when I talk about our growth, it comes down to, I think, a couple of things. Number one, the new products that I talked about the INFUSE or the ULTRA ONE Day product, clearly and the launch of that comes back to our XIPERE new product launch opportunity and the additional new products that we expect to launch during the year in our Surgical business.

I know that Alcon and Cooper, when they talk about their growth, they're also talking about some of the bolt-on acquisitions they do, we're talking about our growth simply as -- and only as the true organic growth, not including any M&A or business development. So I think that's maybe a slight differential versus what they talk about. They talk about their growth inclusive of the -- any business development M&A activity.

So maybe that's probably the only difference that I'm aware of right now as I sit here today. Obviously, as we go out as an independent B&L business, we do think there's going to be opportunities for additional bolt-on opportunities for us. But at this point, we do not build it into our current 2022 guidance.

Operator, thank you very much, everyone. Thank you very much for joining us. I think that's going to conclude our conversations for today, but I appreciate everyone's interest in the business. We're excited about what's in front of us. We have the simultaneous opportunity to continue to increase our EBITDA also to launch new products and then clearly make progress on our strategic alternatives. Thank you all for joining us today. Have a great day.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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DRL Exhibit 1175, Page 24 of 25
DRL v. Eye Therapies - IPR2024-00467

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DRL Exhibit 1175, Page 25 of 25
DRL v. Eye Therapies - IPR2024-00467