## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### INTRODUCTION

*Unless the context otherwise indicates, as used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the terms "we," "us," "our," "the Company," and similar terms refer to Bausch Health Companies Inc. and its subsidiaries. This "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been updated through August 6, 2019 and should be read in conjunction with the unaudited interim Consolidated Financial Statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (this "Form 10-Q"). The matters discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain certain forward-looking statements within the meaning of Section 27A of The Securities Act of 1993, as amended, and Section 21E of The Securities Exchange Act of 1934, as amended, and that may be forward-looking information within the meaning defined under applicable Canadian securities laws (collectively, "Forward-Looking Statements"). See "Forward-Looking Statements" at the end of this discussion.*

*Our accompanying unaudited interim Consolidated Financial Statements as of June 30, 2019 and for the three and six months ended June 30, 2019 and 2018 have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the United States Securities and Exchange Commission (the "SEC") for interim financial statements, and should be read in conjunction with our Consolidated Financial Statements for the year ended December 31, 2018, which were included in our Annual Report on Form 10-K filed on February 20, 2019. In our opinion, the unaudited interim Consolidated Financial Statements reflect all adjustments, consisting of normal and recurring adjustments, necessary for a fair statement of the financial condition, results of operations and cash flows for the periods indicated. Additional company information is available on SEDAR at www.sedar.com and on the SEC website at www.sec.gov. All currency amounts are expressed in U.S. dollars, unless otherwise noted.*

### OVERVIEW

We are a global pharmaceutical and medical device company whose mission is to improve people's lives with our health care products. We develop, manufacture and market, primarily in the therapeutic areas of eye-health, gastroenterology ("GI") and dermatology, a broad range of: (i) branded pharmaceuticals, (ii) generic and branded generic pharmaceuticals, (iii) over-the-counter ("OTC") products and (iv) medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment and aesthetics devices), which are marketed directly or indirectly in over 90 countries.

#### Business Strategy

*Core Businesses*

Our strategy is to focus our business on core therapeutic classes that offer attractive growth opportunities. Within our chosen therapeutic classes, we prioritize durable products which we believe have the potential for strong operating margins and evidence of growth opportunities. We believe this strategy has reduced complexity in our operations and maximized the value of our: (i) eye-health, (ii) GI and (iii) dermatology businesses which collectively now represent a substantial portion of our revenues. We have found and continue to believe there is significant opportunity in these businesses and we believe that our existing portfolio, commercial footprint and pipeline of product development projects position us to successfully compete in these markets and provide us with the greatest opportunity to build value for our shareholders. We identify these businesses as "core", meaning that we believe we are best positioned to grow and develop them.

*Reportable Segments and Strategies*

Our portfolio of products falls into four operating and reportable segments: (i) Bausch + Lomb/International, (ii) Salix, (iii) Ortho Dermatologics and (iv) Diversified Products.

*The Bausch + Lomb/International segment* - consists of our Global Bausch + Lomb eye-health business and our International Rx business. Our Global Bausch + Lomb eye-health business includes our Vision Care, Surgical, Consumer and Ophthalmology Rx products, which in aggregate accounted for approximately 43%, 43% and 41% of our Company's revenues for the six months ended June 30, 2019 and the years 2018 and 2017, respectively. Our International Rx business, with the exception of our Solta products, includes sales in Canada, Europe, Asia, Australia, Latin America, Africa and the Middle East of branded pharmaceutical products, branded generic pharmaceutical products, OTC products and medical device products.

Our Bausch + Lomb business is a fully-integrated eye-health business, which we believe is critical to maintaining our position in the global eye-health market. As a fully-integrated eye-health business with a 165-year legacy, Bausch + Lomb has an established line of contact lenses, intraocular lenses and other medical devices, surgical systems and devices, vitamin and mineral supplements, lens care products, prescription eye-medications and other consumer products that positions us to compete in all areas of the eye-health market.

As part of our Global Bausch + Lomb business strategy, we continually look for key trends in the eye-health market to meet changing consumer/patient needs and identify areas for investment and growth. For instance, one of these trends, myopia, is increasing substantially, and importantly, myopia is a risk factor for glaucoma, macular degeneration and retinal detachment. We continue to see increased demand for new eye-health products that address conditions brought on by factors such as increased screen time, lack of outdoor activities and academic pressures, as well as conditions brought on by an aging population for example, as more and more baby-boomers in the U.S. are reaching the age of 65. To supplement our well-established Bausch + Lomb product lines, we continue to identify new products tailored to address these key trends, which we develop internally with our own research and development ("R&D") team to generate organic growth. Recent product launches include Biotrue® ONEday daily disposable contact lenses, the next generation of Bausch + Lomb ULTRA® contact lenses, SiHy Daily contact lenses, Lumify® (an eye redness treatment), Vyzulta® (a pressure lowering eye drop for patients with angle glaucoma or ocular hypertension) and Ocuvite® Eye Performance (vitamins to protect the eye from stressors such as sun light and blue light emitted from digital devices).

*The Salix segment* - consists of sales in the U.S. of gastrointestinal or GI products and includes Xifaxan® which accounted for approximately 16%, 14% and 11% of our total revenues for the six months ended June 30, 2019 and the years 2018 and 2017, respectively.

As part of our acquisition of Salix Pharmaceutical, Ltd. in April 2015 (the "Salix Acquisition"), we acquired the intellectual property to a number of products that have provided us with year-over-year revenue growth, particularly the intellectual properties behind Xifaxan® for, amongst other indications, irritable bowel syndrome with diarrhea ("IBS-D"), and Relistor® for opioid induced constipation ("OIC"). Revenues from our Xifaxan® and Relistor® products increased approximately 22% and 37%, respectively, in 2018 when compared to 2017 and increased 16% and 14%, respectively, for the six months ended June 30, 2019 when compared to the six months ended June 30, 2018. We attribute these increases, in part, to our January 2017 sales force expansion program described later in the discussion of our Salix infrastructure.

Our Salix business strategy includes building upon our Xifaxan® and Relistor® business models. Specifically, we have identified and continue to look for opportunities to capitalize on the sales force and infrastructure we have built around our Xifaxan® and Relistor® products. Part of that strategy is to gain access to new products through innovation, co-promotion and acquisition. We have been executing on these strategies in the second half of 2018 and during 2019, as we: (i) have entered into strategic co-promotion relationships with pharmaceutical companies with new GI products, (ii) are in the process of developing next generation formulations of our Salix intellectual properties to address new indications, (iii) have completed the strategic acquisition of certain assets of Synergy Pharmaceuticals Inc. ("Synergy") as we discuss later and (iv) have entered into licensing agreements for investigational products, which, once developed and if approved by the U.S. Food and Drug Administration (the "FDA"), will be new treatments for certain GI and liver diseases. Each of these opportunities potentially provides us with the ability to expand our GI portfolio and allows us to leverage our existing GI sales force, supply channel and distribution channel.

*The Ortho Dermatologics segment* - consists of: (i) sales in the U.S. of Ortho Dermatologics (dermatological products) and (ii) global sales of Solta medical dermatological devices.

As part of our business strategy for the Ortho Dermatologics segment, we have made significant investments to build out our aesthetics, psoriasis and acne product portfolios, which are the markets within dermatology where we see the greatest opportunities, with a focus on topical gel and lotion products over injectable biologics. We continue to support and develop injectable biologics; however, we believe some patients prefer topical products as an alternative to injectable biologics. Further, as topical products can, in many cases, defer the use of injectable biologics that often come with associated risk/benefit profiles, a topical product is usually more readily adopted by payors, is less expensive and can be more cost-effective than injectable biologics. Therefore, we believe topical products represent alternative treatments for physicians, payors and patients, and as the preferred choice of treatment, have the potential to drive greater volumes, generate better margins and will ultimately be a key contributing factor of our Ortho Dermatologics business.

As we later discuss, in addition to our established and in-development product lines, we also look to gain access to other dermatology products through strategic licensing agreements. We believe this allows us to leverage our experienced dermatology sales leadership team and our recently expanded Ortho Dermatologics sales force to drive growth in our Ortho Dermatologics business.

*The Diversified Products segment* - consists of sales in the U.S. of: (i) pharmaceutical products in the areas of neurology and certain other therapeutic classes, such as Wellbutrin XL®, Cuprimine® and Migranal®, (ii) generic products, such as Diastat®, Uceris® and Zegerid® and (iii) dentistry products, such as Arestin® and NeutraSal®.

*Significant Seven*

We have focused our R&D to advance development programs that we believe will drive growth in our core businesses, while creating efficiencies in our R&D efforts and expenses. These programs include the following products which we have dubbed our "Significant Seven", all of which have been launched as of June 2019.

- Duobrii™ (Ortho Dermatologics) - Launched in June 2019 and is the first and only topical lotion that contains a unique combination of halobetasol propionate and tazarotene for the treatment of moderate-to-severe plaque psoriasis in adults.
- Bryhali™ (Ortho Dermatologics) - Launched in November 2018 and is a novel product that contains a unique, lower concentration of halobetasol propionate for the treatment of moderate-to-severe psoriasis.
- Lumify® (Bausch + Lomb) - Launched in May 2018 and is an OTC eye drop developed as an ocular redness reliever.
- SiHy Daily AQUALOX™ (Bausch + Lomb) - Launched in Japan in September 2018 and is a silicone hydrogel daily disposable contact lens designed to provide clear vision throughout the day.
- Siliq® (Ortho Dermatologics) - Launched in the U.S. in 2017 and is an IL-17 receptor blocker monoclonal antibody for patients with moderate-to-severe plaque psoriasis.
- Vyzulta® (Bausch + Lomb) - Launched in December 2017 and is an intraocular pressure lowering single-agent eye drop dosed once daily for patients with open angle glaucoma or ocular hypertension.
- Relistor® (Salix) - Launched in 2016 and is given to adults who use narcotic medicine to treat severe chronic pain that is not caused by cancer to prevent constipation without reducing the pain-relieving effects of the narcotic.

As outlined later in this discussion, although revenues associated with our Significant Seven products are currently not material, we believe the prospects for this group are substantial.

For a comprehensive discussion of our business, business strategy, products and other business matters, see Item 1. “Business” included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC and the Canadian Securities Administrators on SEDAR on February 20, 2019.

*Focus on Core Businesses*

As part of our commitment to our core businesses, we began analyzing the strategic alternatives for business units and assets that fall outside our definition of “core”. In order to focus on our objectives, in 2016 and 2017, we divested businesses and assets, which were not aligned with our core business objectives. This not only allowed us to better focus our internal resources on our eye-health, GI and dermatology businesses, but also provided us with significant sources of capital, which we used to reduce our debt and improve our capital structure.

In order to continue to focus on our core businesses we have: (i) directed capital allocation to drive growth within our core businesses, (ii) made measurable progress in improving our capital structure and (iii) aggressively addressed and resolved certain legacy legal matters to eliminate disruptions to our operations.

*Allocation of Capital to Drive Growth*

In support of our core activities, we have been aggressively allocating resources to: (i) promote our core businesses globally, (ii) make strategic investments in our infrastructure and (iii) direct R&D to our Bausch + Lomb, GI and dermatology businesses to drive growth organically. The outcome of this process allows us to better drive value in our product portfolio and generate operational efficiencies.

*Continued Investment in Emerging Markets* - In October 2018, we acquired the 40% minority interests of Medpharma Pharmaceutical and Chemical Industries LLC ("Medpharma") for $18 million, thereby completing the planned acquisition of this joint venture. Medpharma formulates, manufactures and distributes certain branded generic pharmaceuticals and non-patented generic pharmaceuticals for the Company and third parties. In 2014, we entered into the Medpharma joint venture to provide the Company with a presence in the United Arab Emirates ("UAE"). The completion of this acquisition provides us

with full control over the business activities of Medpharma and allows us to wholly benefit from the allocation of additional Company resources and the growth, if any, in the UAE and the surrounding region.

*Strategic Investments in our Infrastructure* - In support of our core businesses, we have and continue to make strategic investments in our infrastructure, the most significant of which are at our Waterford facility in Ireland and our Rochester facility in New York.

To meet the forecasted demand for our Biotrue® ONEday lenses, in July 2017, we placed into service a $175 million multi-year strategic expansion project of the Waterford facility. The emphasis of the expansion project was to: (i) develop new technology to manufacture, automatically inspect and package contact lenses, (ii) bring that technology to full validation and (iii) increase the size of the Waterford facility.

To address the expected global demand for our Bausch + Lomb ULTRA® contact lens, in December 2017, we completed a multi-year, $200 million strategic upgrade to our Rochester facility. The upgrade increased production capacity in support of our Bausch + Lomb Ultra® and SiHy Daily AQUALOX™ product lines and better supports the production of other well-established contact lenses, such as our PureVision®, PureVision®2 (SVS, Toric, and Multifocal), SofLens® 38 and SilSoft®.

To address the expected global demand for our SiHy Daily disposable contact lenses, in November 2018, we initiated $300 million of additional expansion projects to add multiple production lines to our Rochester and Waterford facilities. SiHy Daily disposable contact lenses, one of our Significant Seven products, are expected to be commercially available in the second half of 2020.

We believe the investments in our Waterford and Rochester facilities and related expansion of labor forces further demonstrates the growth potential we see in our Bausch + Lomb products and our eye-health business.

*Direct R&D Investment to our Bausch + Lomb, GI and Dermatology Businesses to Drive Growth Organically* - Our R&D organization focuses on the development of products through clinical trials. As of December 31, 2018, approximately 1,200 dedicated R&D and quality assurance employees in 23 R&D facilities were involved in our R&D efforts.

As part of our turnaround, we removed projects related to divested businesses and rebalanced our portfolio to better align with our long-term plans and focus on core businesses. Our investment in R&D reflects our commitment to drive organic growth through internal development of new products, a pillar of our new strategy. We have over 225 projects in our global pipeline and anticipate submitting approximately 125 of those projects for regulatory approval in 2019 and 2020.

Core assets that have received a significant portion of our R&D investment in current and prior periods are listed below.

- Dermatology - In June 2019, we launched Duobrii™, the first and only topical lotion that contains a unique combination of halobetasol propionate and tazarotene for the treatment of moderate-to-severe plaque psoriasis in adults. Halobetasol propionate and tazarotene are each approved to treat plaque psoriasis when used separately, but the duration of halobetasol propionate is limited by FDA labeling constraints and the use of tazarotene can be limited due to tolerability concerns. However, the combination of these ingredients in Duobrii™, with a dual mechanism of action, allows for expanded duration of use, with reduced adverse events.

- Dermatology - In November 2018, we launched Bryhali™, a novel product that contains a unique, lower concentration of halobetasol propionate for the treatment of moderate-to-severe psoriasis which is FDA approved for 8 weeks of use. The FDA has previously approved halobetasol propionate to treat plaque psoriasis, but limited duration of use to two weeks.

- Dermatology - Internal Development Project ("IDP") 133 is a project to expand the indication for Bryhali™ (halobetasol propionate lotion 0.01%) from plaque psoriasis to include the topical treatment of atopic dermatitis. A Phase 3 study is planned to start in the second half of 2019.

- Dermatology - IDP-131 is a new chemical entity, KP-470, for the topical treatment of psoriasis. On February 27, 2018, we announced that we entered into an exclusive license agreement with Kaken Pharmaceutical Co., Ltd. to develop and commercialize the compound. An early proof of concept study was initiated in the first half of 2019. If approved by the FDA, KP-470 could represent a novel drug with an alternative mechanism of action in the topical treatment of psoriasis.

- Bausch + Lomb - Bausch + Lomb ULTRA® for Astigmatism is a monthly planned replacement contact lens for astigmatic patients. The Bausch + Lomb ULTRA® for Astigmatism lens was developed using the proprietary MoistureSeal® technology. In addition, the Bausch + Lomb ULTRA® for Astigmatism lens integrates an OpticAlign® design engineered

for lens stability and to promote a successful wearing experience for the astigmatic patient. In 2017, we launched this product and the extended power range for this product. In 2018, we launched the Bausch + Lomb ULTRA® for Astigmatism -2.75 cylinder expanded SKU range.

- Bausch + Lomb - SiHy Daily AQUALOX™ is a silicone hydrogel daily disposable contact lens designed to provide clear vision throughout the day. Product validation was completed in June 2018 and SiHy Daily AQUALOX™ was launched in Japan in September 2018.
- Dermatology - IDP-126 is an acne product with a fixed combination of benzoyl peroxide, clindamycin phosphate and adapalene, currently in Phase 2 testing.
- Bausch + Lomb - Lumify® (brimonidine tartrate ophthalmic solution, 0.025%) is an OTC eye drop developed as an ocular redness reliever which we launched in May 2018.
- Gastrointestinal - We have initiated a Phase 2 study for the treatment of overt hepatic encephalopathy with a new formulation of rifaximin, which we acquired as part of the Salix Acquisition. We expect to complete an interim analysis by the end of 2019.
- Gastrointestinal - We are initiating a Phase 2 study to evaluate rifaximin for the treatment of small intestinal bacterial overgrowth or SIBO. Patient enrollment is expected to begin in the first quarter of 2020.
- Gastrointestinal - Our partner Alfasigma S.p.A. is initiating a Phase 2/3 study for the treatment of postoperative Crohns disease using a novel rifaximin extended release formulation. The study is expected to start in the first half of 2020.
- Gastrointestinal - We are initiating a Phase 2 study evaluating Xifaxan® 550mg tablets for the prevention of complications of decompensation cirrhosis. The study is expected to start in the fourth quarter of 2019.
- Dermatology - In October 2018, we launched Altreno® (tretinoin 0.05%) lotion, indicated for the topical treatment of acne vulgaris in patients 9 years of age and older. Altreno® is the first tretinoin formulation in a lotion, approved for patients 9 years of age and older.
- Dermatology - IDP-120 is an acne product with a fixed combination of mutually incompatible ingredients; benzoyl peroxide and tretinoin. Phase 3 clinical studies are ongoing.
- Dermatology - IDP-123 is an acne product containing lower concentration of tazarotene in a lotion form to help reduce irritation while maintaining efficacy. We submitted a New Drug Application ("NDA") with the FDA on February 22, 2019.
- Dermatology - IDP-124 is a topical lotion product designed to treat moderate to severe atopic dermatitis, with pimecrolimus, currently in Phase 3 testing.
- Dermatology - IDP-135 is a topical retinoid product in development. We are seeking guidance from the FDA to develop this product for OTC use for the treatment of acne. The guidance meeting is targeted for 2019.
- Gastrointestinal - On September 11, 2018, we announced the launch of Plenvu® in the U.S. We license Plenvu® from Norgine B.V. Plenvu® is a novel, lower-volume polyethylene glycol-based bowel preparation developed to help provide complete bowel cleansing, with an additional focus on the ascending colon.
- Bausch + Lomb - On May 1, 2018, we received Premarket Approval ("PMA") from the FDA for, and subsequently launched, 7-day extended wear for our Bausch + Lomb ULTRA® monthly planned replacement contact lenses.
- Bausch + Lomb - Biotrue® ONEday for Astigmatism is a daily disposable contact lens for astigmatic patients. The Biotrue® ONEday lenses incorporate Surface Active Technology™ to provide a dehydration barrier. The Biotrue® ONEday for Astigmatism also includes evolved peri-ballast geometry to deliver stability and comfort for the astigmatic patient. We launched this product in December 2016 and launched an extended power range and further extended power range in 2017 and 2018, respectively. We expect to launch a further power expansion for this product in 2019.
- Bausch + Lomb - We are developing a new Ophthalmic Viscosurgical Device product, with a formulation to protect corneal endothelium during phacoemulsification process during a cataract surgery and to help chamber maintenance and lubrication during interocular lens delivery. In April 2018, we initiated an investigative device exemption ("IDE") study for this product and completed enrollment in December 2018. We expect to complete the clinical trial in the fourth quarter of 2019 and anticipate filing a PMA application with the FDA in the first quarter of 2020.

- Dermatology - Traser™ is an energy-based platform device with significant versatility and power capabilities to address various dermatological conditions, including vascular and pigmented lesions. We are planning to launch this product in the second half of 2022 as part of our Solta business.

- Bausch + Lomb - In April 2019, we launched Lotemax® SM (loteprednol etabonate ophthalmic gel) 0.38%, a new formulation for the treatment of post-operative inflammation and pain following ocular surgery. Lotemax® SM is the lowest concentrated loteprednol ophthalmic corticosteroid indicated for the treatment of post-operative inflammation and pain following ocular surgery in the U.S.

- Bausch + Lomb - enVista® Trifocal intraocular lens is an innovative lens design. We initiated an IDE study for this product in May 2018 and expect to initiate a Phase 2 study in the fourth quarter of 2019.

- Bausch + Lomb - enVista® Toric intraocular lens was launched in July 2018.

- Bausch + Lomb - We are developing a preloaded intraocular lens injector platform for enVista interocular lens. The PMA application was submitted to the FDA in July 2018 and the CE Mark notification was submitted in Europe in February 2019.

- Bausch + Lomb ULTRA® Multifocal for Astigmatism contact lens is the first and only multifocal toric lens available as a standard offering in the eye care professional's fit set. The new monthly silicone hydrogel lens, which was specifically designed to address the lifestyle and vision needs of patients with both astigmatism and presbyopia, combines the Company's unique 3-Zone Progressive™ multifocal design with the stability of its OpticAlign® toric with MoistureSeal® technology to provide eye care professionals and their patients an advanced contact lens technology that offers the convenience of same-day fitting during the initial lens exam. Bausch + Lomb ULTRA® Multifocal for Astigmatism was launched in June 2019.

- Bausch + Lomb - Renu® Advanced Multi-Purpose Solution ("MPS") contains a triple disinfectant system that kills 99.9% of germs, and has a dual surfactant system that provides up to 20 hours of moisture. Renu Advanced MPS is FDA cleared with indications for use to condition, clean, remove protein, disinfectant, rinse and store soft contact lenses including those composed of silicone hydrogels. Renu Advanced MPS has gained regulatory approvals in Korea, India, Mexico, Indonesia, Malaysia and Singapore.

- Bausch + Lomb - Custom soft contact lens (Ultra buttons) is a latheable silicone hydrogel button for custom soft specialty lenses including; Sphere, Toric, Multifocal, Toric Multifocal and irregular corneas. If approved by the FDA, we may launch in the second half of 2020.

- Bausch + Lomb - In January 2019, we launched Zen™ Multifocal Scleral Lens for presbyopia exclusively available with Zenlens™ and Zen™ RC scleral lenses and will allow eye care professionals to fit presbyopic patients with irregular and regular corneas and those with ocular surface disease, such as dry eye. The Zen™ multifocal Scleral Lens incorporates decentered optics, enabling the near power to be positioned over the visual axis.

- Bausch + Lomb - In March 2019, we launched Tangible® Hydra-PEG® is a high-water polymer coating that is bonded to the surface of a contact lens and designed to address contact lens discomfort and dry eye. Tangible® Hydra-PEG® coating technology in combination with our Boston® materials and Zenlens™ family of scleral lenses will help eye care professionals provide a better lens wearing experience for their patients with challenging vision needs.

*Improve Capital Structure*

We have made measurable progress in improving our capital structure by: (i) reducing our debt through repayments and (ii) extending the maturities of debt through refinancing. Using the net cash proceeds from divestitures of non-core assets, cash generated from operations and cash generated from tighter working capital management, through the date of this filing, we repaid (net of additional borrowings) over $7,200 million of long-term debt since the beginning of 2016, in the aggregate. Further, as a result of the refinancing and debt repayments outlined below, as of the date of this filing, we have eliminated all mandatory scheduled principal repayments of our debt obligations through the second quarter of 2020 and our mandatory scheduled principal repayments through 2021 are approximately $410 million.

*Divestitures* - During 2017, we divested businesses and assets not aligned with our core business objectives, which simplified our operating model and generated over $3,200 million of net cash proceeds that we used to improve our capital structure, the most significant of which were the divestitures of the Company's interests in the CeraVe®, AcneFree™ and AMBI® skincare brands (March 3, 2017), the iNova Pharmaceuticals business (September 29, 2017), the Company's equity interest in Dendreon Pharmaceuticals LLC (June 28, 2017) and the Obagi Medical Products, Inc. business (November 9, 2017).

*Debt Repayments* - During the years 2016 through 2018, we repaid (net of additional borrowings) over $6,800 million of long-term debt using the net cash proceeds from divestitures of non-core assets, cash generated from operations and cash generated from tighter working capital management. During the six months ended June 30, 2019, we repaid approximately $250 million of long-term debt, net of borrowings under our 2023 Revolving Credit Facility (as defined below). Repayments of long-term debt during the six months ended June 30, 2019 included: (i) $253 million of our seven year Tranche B Term Loan Facility maturing in June 2025 (the "June 2025 Term Loan B Facility") and (ii) $75 million of our seven year Tranche B Term Loan Facility maturing in November 2025 (the "November 2025 Term Loan B Facility"). In addition to these repayments, on August 1, 2019, we repaid $100 million of long-term debt, which included: (i) $81 million of the June 2025 Term Loan B Facility and (ii) $19 million of the November 2025 Term Loan B Facility. Net borrowings during the six months ended June 30, 2019 under our 2023 Revolving Credit Facility of $75 million were primarily used for the payment of interest due in April 2019 and other short-term capital needs.

*2017 Refinancing Transactions* - In March, October, November and December of 2017, we accessed the credit markets and completed a series of transactions, whereby we extended approximately $9,500 million in aggregate maturities of certain debt obligations due to mature in April 2018 through April 2022, out to March 2022 through December 2025. As part of these transactions we also extended commitments under our revolving credit facility, originally set to expire in April 2018, out to April 2020.

*2018 Refinancing Transactions* - In March, June and November 2018, we accessed the credit markets and completed a series of transactions, whereby we extended approximately $8,300 million in aggregate maturities of certain debt obligations due to mature in March 2020 through July 2022, out to June 2025 through January 2027. As part of these transactions we obtained less stringent loan financial maintenance covenants under our Senior Secured Credit Facilities and extended commitments under our revolving credit facility by more than three years by replacing our then-existing revolving credit facility, set to expire in April 2020 with a revolving credit facility of $1,225 million due in June 2023 (the "2023 Revolving Credit Facility").

*2019 Refinancing Transactions* - In March and May 2019, we accessed the credit markets and completed a series of transactions, whereby we extended approximately $3,000 million in aggregate maturities of certain debt obligations due to mature in December 2021 through May 2023, out to January 2027 through May 2029.

On March 8, 2019, we issued: (i) $1,000 million aggregate principal amount of 8.50% Senior Unsecured Notes due January 2027 and (ii) $500 million aggregate principal amount of 5.75% Senior Secured Notes due August 2027 (the "August 2027 Secured Notes") in a private placement. The unsecured notes form part of the same series as our existing 8.50% Senior Unsecured Notes due January 2027 (the "January 2027 Unsecured Notes"). A portion of the net proceeds of the January 2027 Unsecured Notes and the August 2027 Secured Notes and cash on hand were used to: (i) repurchase the remaining $700 million outstanding principal amount of 5.625% Senior Unsecured Notes due 2021 (the "December 2021 Unsecured Notes"), (ii) repurchase $584 million of 5.875% Senior Unsecured Notes due 2023 (the "May 2023 Unsecured Notes"), (iii) repurchase $216 million of 5.50% Senior Unsecured Notes due 2023 (the "March 2023 Unsecured Notes") and (iv) pay all fees and expenses associated with these transactions (collectively, the "March 2019 Refinancing Transactions").

On May 23, 2019, we issued: (i) $750 million aggregate principal amount of 7.00% Senior Unsecured Notes due January 2028 (the "January 2028 Unsecured Notes") and (ii) $750 million aggregate principal amount of 7.25% Senior Unsecured Notes due May 2029 (the "May 2029 Unsecured Notes") in a private placement. The net proceeds and cash on hand were used to: (i) repurchase $1,118 million of May 2023 Unsecured Notes, (ii) repurchase $382 million of March 2023 Unsecured Notes and (iii) pay all fees and expenses associated with these transactions (collectively, the "May 2019 Refinancing Transactions").

As a result of prepayments and a series of refinancing transactions through June 30, 2019, we have extended the maturities of a substantial portion of our long-term debt, providing us with additional liquidity and greater flexibility to execute our business plans. The tables below summarize our outstanding debt portfolio and maturities as of June 30, 2019 as compared to December 31, 2018.

| | | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| *(in millions)* | **Maturity** | **Principal Amount** | **Net of Premiums, Discounts and Issuance Costs** | **Principal Amount** | **Net of Premiums, Discounts and Issuance Costs** |
| **Senior Secured Credit Facilities:** | | | | | |
| 2023 Revolving Credit Facility | June 2023 | $ 150 | $ 150 | $ 75 | $ 75 |
| June 2025 Term Loan B Facility | June 2025 | 4,141 | 4,029 | 4,394 | 4,269 |
| November 2025 Term Loan B Facility | November 2025 | 1,406 | 1,384 | 1,481 | 1,456 |
| **Senior Secured Notes:** | | | | | |
| 5.75% Secured Notes | August 2027 | 500 | 493 | — | — |
| All other Senior Secured Notes | March 2022 through November 2025 | 5,000 | 4,953 | 5,000 | 4,948 |
| **Senior Unsecured Notes:** | | | | | |
| 5.625% | December 2021 | — | — | 700 | 697 |
| 5.50% | March 2023 | 402 | 400 | 1,000 | 995 |
| 5.875% | May 2023 | 1,548 | 1,539 | 3,250 | 3,229 |
| 8.50% | January 2027 | 1,750 | 1,757 | 750 | 738 |
| 7.00% | January 2028 | 750 | 740 | — | — |
| 7.25% | May 2029 | 750 | 740 | — | — |
| All other Senior Unsecured Notes | May 2023 through April 2026 | 7,956 | 7,878 | 7,970 | 7,886 |
| Other | Various | 16 | 16 | 12 | 12 |
| **Total long-term debt and other** | | $ 24,369 | $ 24,079 | $ 24,632 | $ 24,305 |

The weighted average stated interest rate of the Company's outstanding debt as of June 30, 2019 and December 31, 2018 was 6.44% and 6.23%, respectively.

The scheduled principal repayments of our debt obligations as of June 30, 2019 compared with December 31, 2018 were as follows:

| *(in millions)* | June 30, 2019 | December 31, 2018 |
|---|---|---|
| 2019 | $ 4 | $ 228 |
| 2020 | 203 | 303 |
| 2021 | 303 | 1,003 |
| 2022 | 1,553 | 1,553 |
| 2023 | 4,109 | 6,348 |
| 2024 | 2,303 | 2,303 |
| Thereafter | 15,894 | 12,894 |
| Gross maturities | $ 24,369 | $ 24,632 |

On August 1, 2019, we repaid $100 million of long-term debt, which included: (i) $81 million of the June 2025 Term Loan B Facility and (ii) $19 million of the November 2025 Term Loan B Facility. These transactions are not reflected in the table above and are therefore included as due during 2020.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Consolidated Financial Statements and “Management's Discussion and Analysis - Liquidity and Capital Resources: Long-term Debt” for further details.

*Address Legacy Legal Matters*

The Company was burdened with addressing certain ongoing legal matters, some of which were inherited as part of the acquisitions we completed in 2015 and prior. In order to better focus on our core activities and simplify our operations, we have been vigorously addressing many of these matters, and, through the date of this filing, we achieved dismissals and other positive outcomes in a number of litigations, disputes and investigations, as we continue to actively address others. For example, in July 2019, we announced that the U.S. District Court of New Jersey had upheld the validity of and determined Actavis Laboratories FL, Inc.'s ("Actavis") infringement of a patent protecting our Relistor® tablets, expiring in March 2031. In July, we also announced that we had agreed to resolve the outstanding intellectual property litigation with Teva Pharmaceuticals USA, Inc. ("Teva") regarding Apriso® extended-release capsules 0.375g. As part of the settlement, the parties agreed to dismiss all litigation related to Apriso®, and intellectual property protecting Apriso® will remain intact and enforceable. In addition, we will grant Teva a non-exclusive license effective October 1, 2021 to the intellectual property relating to Apriso® in the United States (provided that Teva will be able to begin marketing prior to such date if another generic version of the product is granted approval and starts selling or distributing such generic prior to October 1, 2021). The Company has now resolved litigation related to Apriso® with two out of the four Paragraph IV filers.

These matters and other significant matters are discussed in further detail in Note 19, "LEGAL PROCEEDINGS" to our unaudited interim Consolidated Financial Statements presented elsewhere in this Form 10-Q and Note 20, "LEGAL PROCEEDINGS" to our audited Consolidated Financial Statements for the year ended December 31, 2018, which were included in our Annual Report on Form 10-K filed on February 20, 2019.

*Address Regulatory Matters*

In the normal course of business, our products, devices and facilities are the subject of ongoing oversight and review, by regulatory and governmental agencies, including general, for cause and pre-approval inspections by the relevant competent authorities where we have business operations, including the FDA. Currently, all of our global operations and facilities have the relevant operational certificates. Through the date of this filing, the Company's operating sites are in good compliance standing, and all sites under FDA jurisdiction are rated as either No Action Indicated (where there was no Form 483 observation) or Voluntary Action Indicated ("VAI") (where there was a Form 483 with one or more observations). In the case of VAI inspection outcomes, the FDA has accepted our responses to the issues cited in the Form 483, which will be verified when the agency makes its next inspection of those specific facilities. A Form 483 is issued at the end of each inspection when FDA investigators have observed any condition that in their judgment may constitute violations of current good manufacturing practice.

*Patient Access and Pricing Committee and New Pricing Actions*

Improving patient access to our products, as well as making them more affordable, is an important element of our turnaround. In May 2016, we formed the Patient Access and Pricing Committee responsible for setting, changing and monitoring the pricing of our products to ensure launch prices and price changes are assessed and implemented across channels with a focus on patient accessibility and affordability while maintaining profitability. Since that time, the Patient Access and Pricing Committee has been committed to limiting the average annual price increase for our branded prescription pharmaceutical products to no greater than single digits and reaffirmed this commitment for 2019. We expect that the Patient Access and Pricing Committee will continue to implement or recommend additional price changes and/or new programs in-line with this commitment to enhance patient access to our drugs. These pricing changes and programs could affect the average realized pricing for our products and may have a significant impact on our revenue trends.

*Dermatology.com Cash-pay Prescription Program*

In February 2019, we launched Dermatology.com, a cash-pay prescription program to make certain Ortho Dermatologics branded products available directly to patients with a valid prescription, regardless of their insurance status and without prior authorizations needed. The program is specifically designed to provide patients with direct access to a range of proven treatment options for certain disease states that typically encounter insurance coverage hassles and high prescription costs including acne, actinic keratosis, superficial basal cell carcinoma, barrier repair (e.g. eczema treatments), wounds and corticosteroid-responsive diseases such as rashes, psoriasis and atopic dermatitis.

Through Dermatology.com, all patients, regardless of their insurance status, will be able to purchase medicines at prices ranging from $50 to $115 per prescription. By doing so, the program will provide branded options that offer proven medicines with straightforward access. It will include certain Ortho Dermatologics brands, such as Retin-A® (tretinoin) cream, as well as novel products, such as Altreno® (tretinoin) Lotion, 0.05%. All products included in the Dermatology.com program will be eligible for Flexible Spending Accounts or Health Saving Accounts and will continue to be supported by the Company's Patient Assistance Program, which offers free medication for patients who meet income and other eligibility criteria. We plan to include approximately 15 Ortho Dermatologics products in the Dermatology.com program by the end of 2019 including some investigational therapies that will be added to the program as soon as, and if, they are approved by the FDA.

*Walgreens Fulfillment Arrangements*

In the beginning of 2016, we launched a brand fulfillment arrangement with Walgreen Co. ("Walgreens") and extended these programs to additional participating independent retail pharmacies. Under the terms of the brand fulfillment arrangement, we made available certain of our products to eligible patients through a patient access and co-pay program available at Walgreens U.S. retail pharmacy locations, as well as participating independent retail pharmacies. The program under this 20-year agreement initially covers certain of our dermatology products, including Jublia®, Luzu®, Retin-A Micro® Gel 0.08% and 0.06%, Onexton®, certain of our ophthalmology products, including Vyzulta®, Besivance®, Lotemax®, Alrex®, Prolensa®, Bepreve® and Zylet®. In July 2019, the Company announced that it had entered into an amendment to its existing fulfillment agreement with Walgreens, which the Company believes will further improve the distribution and sales of its products and bring patients lower prices, increased transparency and convenience for the products in the program. As part of this amendment, the arrangement was expanded to cover select dermatology products included in our Dermatology.com cash-pay prescription program.

*Increase the Focus of our Pipeline*

We are constantly challenged by the dynamics of our industry to innovate and bring new products to market. We have divested certain businesses where we saw limited growth opportunities so that we can be more aggressive in redirecting our R&D spend and other corporate investments to innovate within our core businesses where we believe we can be most profitable and where we aim to be an industry leader.

We believe that we have a well-established product portfolio that is diversified within our core businesses and provides a sustainable revenue stream to fund our operations. However, our future success is also dependent upon our ability to continually refresh our pipeline, to provide a rotation of product launches that meet new and changing demands and replace other products that have lost momentum. We believe we have a robust pipeline that not only provides for the next generation of our existing products, but is also poised to bring new products to market.

During 2018, we launched and/or relaunched innovative products across multiple countries that contributed to organic growth in most of our core businesses and we currently have over 225 R&D projects in our global pipeline. In addition to these projects, we have recently launched products we have dubbed our "Significant Seven". These Significant Seven products are: (i) Bryhali™ (Ortho Dermatologics), (ii) Duobrii™ (Ortho Dermatologics), (iii) Lumify® (Bausch + Lomb), (iv) Relistor® (Salix), (v) SiHy Daily (Bausch + Lomb), (vi) Siliq® (Ortho Dermatologics) and (vii) Vyzulta® (Bausch + Lomb). Revenues for our Significant Seven were greater than $150 million in 2018 and were approximately $75 million in 2017. We believe the prospects for this group of products to be substantial and anticipate devoting significant marketing efforts toward their promotion. We also believe that the strength and impact of these products on their respective markets will demonstrate the effectiveness of our pipeline and R&D strategies and promote further innovation in our businesses.

*Leveraging our Salix Infrastructure*

As we strongly believe in our Xifaxan® and Relistor® business models, as part of our transformation, we have taken initiatives to further capitalize on the value of the infrastructure we built around these products.

In the first quarter of 2017, we hired approximately 250 trained and experienced sales force representatives and managers to create, bolster and sustain deep relationships with primary care physicians (“PCP”). With approximately 70% of IBS-D patients initially presenting symptoms to a PCP, we believe that the dedicated PCP sales force is better positioned to reach more patients in need of IBS-D treatment.

This initiative provided us with positive results, as we experienced consistent growth in demand for these products throughout 2017 and 2018. Revenues from our Xifaxan® and Relistor® products increased approximately 22% and 37%, respectively, in 2018 when compared to 2017. These results encouraged us to seek out ways to bring out further value through leveraging our existing sales force and in the later portion of 2018 and in 2019 we have identified and executed on certain opportunities which we describe below.

For instance, in order to continue to generate growth in these products, we continue to directly invest in next generation formulations of Xifaxan® and rifaximin, the principal semi-synthetic antibiotic used in our Xifaxan® product. In addition to one R&D program in progress, we have three other R&D programs planned to start in 2019 for next generation formulations of Xifaxan® and rifaximin which address new indications.

In addition to driving growth through internal R&D development, we seek to align ourselves with new external product development opportunities. As recently as this past April, we entered into two licensing agreements which present us with unique developmental opportunities to address unmet needs of individuals suffering with certain GI and liver diseases. The first of these two licensing agreements is with the University of California for certain intellectual property relating to an investigational compound targeting the pituitary adenylate cyclase receptor 1 in non-alcoholic fatty liver disease (“NAFLD”), nonalcoholic steatohepatitis

("NASH") and other GI and liver diseases. We believe this compound, once fully developed, could address certain unmet medical needs in the treatment of NAFLD and NASH. The second, is an exclusive licensing agreement with Mitsubishi Tanabe Pharma Corporation to develop and commercialize MT-1303 (amiselimod), a late-stage oral compound that targets the sphingosine 1-phosphate receptor that plays a role in autoimmune diseases, such as inflammatory bowel disease and ulcerative colitis. We plan to initiate a Phase 2 study for the development of MT-1303 in ulcerative colitis in the first half of 2020, and additionally the cardiovascular Holter study is expected to readout around year end.

In addition to product development opportunities, we strive to access innovative and established GI products outside our existing Salix business that allow us to leverage our existing GI sales force, supply channel and distribution channel to bring about growth through co-promotion and acquisition. For instance, in the second half of 2018, we entered into agreements with Dova Pharmaceuticals, Inc. to co-promote Doptelet®, a new treatment of thrombocytopenia in adult patients with chronic liver disease, and with US WorldMeds, LLC to co-promote Lucemyra®, a non-opioid medication for the mitigation of withdrawal symptoms to facilitate abrupt discontinuation of opioids. We also completed the acquisition of certain assets of Synergy in March 2019, whereby we acquired certain assets of Synergy including its worldwide rights to the Trulance® (plecanatide) product, a once-daily tablet for adults with chronic idiopathic constipation and irritable bowel syndrome with constipation.

We continue to see growth in our Xifaxan® and Relistor® products as a result of the continued focus of our sales force on PCPs. Revenues from our Xifaxan® and Relistor® franchises increased approximately 16% and 14%, respectively, for the six months ended June 30, 2019 when compared to the six months ended June 30, 2018. We therefore believe that the co-promotion and acquisition opportunities, as previously discussed, will be accretive to our business during our transformation by providing us access to products that are a natural pairing to either our Xifaxan® or Relistor® businesses, allowing us to effectively leverage our existing infrastructure and generate growth.

*Refocus the Ortho Dermatologics Business*

In support of our Ortho Dermatologics business and the opportunities we see for growth in this business, we continue to allocate resources and make additional investments in this business to recruit and retain talent and focus on our core dermatology portfolio of products.

To turnaround our dermatology business we have taken and are taking a number of actions which we believe will help our efforts to stabilize our dermatology business. These actions include: (i) rebranding our dermatology business, (ii) recruiting a new experienced leadership team, (iii) making significant investment in our core dermatology portfolio, (iv) increasing and reorganizing our dermatology sales force around roughly 150 territories, as we work to rebuild relationships with prescribers of our products and (v) improving patient access to our Ortho Dermatologics products through Dermatology.com, our cash-pay prescription program previously discussed.

*Recruit and Retain Talent* - In 2017, we identified and retained a proven leadership team of experienced dermatology sales professionals and marketers. In January 2018, the leadership team, encouraged by the success of our GI sales force expansion program, increased our Ortho Dermatologics sales force by more than 25% in support of our growth initiatives for our Ortho Dermatologics business. We believe the additional sales force is vital to meet the demand we expect from our recently launched products and those we expect to launch in the near term, pending FDA approval. We continue to monitor our pipeline for other near term launches that we believe will create opportunity needs in our other core businesses requiring us to make additional investment to retain people for additional leadership and sales force roles.

*Investment in Our Core Dermatology Portfolio* - We have made significant investments to build out our aesthetics, psoriasis and acne product portfolios, which are the markets within dermatology where we see the greatest opportunities.

*Aesthetics* - On September 22, 2017, we received 510(k) clearance from the FDA and launched our Next Generation Thermage FLX® product in the United States. Next Generation Thermage FLX® is a fourth-generation non-invasive treatment option using a radiofrequency platform designed to optimize key functional characteristics and improve patient outcomes. During 2018 and 2019, Next Generation Thermage FLX® was launched in Hong Kong, Japan, Korea, Taiwan, Philippines, Singapore, Indonesia, Malaysia, China, Thailand, Vietnam, and Australia as part of our Solta medical aesthetic devices portfolio. These launches have been successful as Next Generation Thermage FLX® revenues for the six months ended June 30, 2019 were in excess of $26 million. During the remainder of 2019, we expect additional worldwide launches of the Next Generation Thermage FLX® in Asia, Canada and Europe, paced by country-specific regulatory registrations.

*Psoriasis* - As the number of reported cases of psoriasis in the U.S. has increased, we believe there is a need to make further investments in this market in order to maximize our opportunity and supplement our current psoriasis product portfolio. We have filed NDAs for several new topical psoriasis products, launched Bryhali™ in November 2018 and launched Duobrii™ in June 2019. We expect that Bryhali™ and Duobrii™ will line up well with our existing topical portfolio of psoriasis treatments and, supplemented by our injectable biologic products, such as Siliq®, will provide a diverse choice of psoriasis treatments to doctors and patients. In July 2017, we launched Siliq®, an IL-17 receptor blocker monoclonal antibody biologic

for treatment of moderate-to-severe plaque psoriasis, which we estimate to be an over $5,000 million market in the U.S. (Siliq® has a Black Box Warning for the risks in patients with a history of suicidal thoughts or behavior and was approved with a Risk Evaluation and Mitigation Strategy involving a one-time enrollment for physicians and one-time informed consent for patients.) In addition, on February 27, 2018, we announced that we entered into an exclusive license agreement with Kaken Pharmaceutical Co., Ltd. to develop and commercialize products containing a new chemical entity, KP-470, for the topical treatment of psoriasis. An early proof of concept study was initiated in the first half of 2019. If approved by the FDA, KP-470 could represent a novel drug with an alternative mechanism of action in the topical treatment of psoriasis.

*Acne* - In support of our established acne product portfolio, we have developed several products, which include Retin-A Micro® 0.06% (launched in January 2018) and Altreno® (launched in the U.S. October 2018), the first lotion (rather than a gel or cream) product containing tretinoin for the treatment of acne. Revenues for the six months ended June 30, 2019 were approximately $13 million and $2 million for Retin-A Micro® 0.06% and Altreno®, respectively. In addition to Retin-A Micro® 0.06% and Altreno®, we have three other unique acne projects in earlier stages of development that, if approved by the FDA, we believe will further innovate and advance the treatment of acne.

*Improving Patient Access to Our Ortho Dermatologics Products* - We see a real opportunity to be a leader in delivering affordable prescription dermatology products. As previously discussed, we recently announced our new cash-pay prescription model, Dermatology.com. Under the recent amendment to our existing Walgreens fulfillment agreement, we expect the program will be available at more than 9,500 Walgreens retail pharmacy locations in the U.S. by the end of August 2019, and we are working on ways to expand this program even further. We expect that approximately 15 products will be available through this channel before year end; and that e-commerce and telemedicine will be available sometime next year.

Bolstered by new product launches in our aesthetics, psoriasis and acne product lines and the potential of other products under development, our experienced dermatology sales leadership team, our increased sales force and our Dermatology.com cash-pay prescription program, we believe we have set the groundwork for the potential to achieve growth in our Ortho Dermatologics business.

*Continue to Manage Our Capital Structure*

As previously outlined, we completed a series of transactions that reduced our debt levels, extended our debt maturities and improved our capital structure, providing us with additional liquidity and greater flexibility to execute our business plans. As a result of prepayments and a series of refinancing transactions, we have extended the maturities of a substantial portion of our long-term debt and, as a result, as of the date of this filing, scheduled principal repayments of our debt obligations through 2021 are approximately $410 million. Our reduced debt levels and improved debt portfolio will translate to lower repayments of principal over the next five years, which, in turn, will permit more cash flows to be directed toward developing our core assets and repay additional debt amounts. In addition, as a result of the changes in our debt portfolio, approximately 75% of our debt is fixed rate debt as of June 30, 2019, as compared to approximately 65% as of January 1, 2017.

We continue to monitor our capital structure and to evaluate other opportunities to simplify our business and improve our capital structure giving us the ability to better focus on our core businesses. While we anticipate focusing any future divestiture activities on non-core assets, consistent with our duties to our shareholders and other stakeholders, we will consider dispositions in core areas that we believe represent attractive opportunities for the Company. Also, the Company regularly evaluates market conditions, its liquidity profile and various financing alternatives for opportunities to enhance its capital structure. If the Company determines that conditions are favorable, the Company may refinance or repurchase existing debt or issue additional debt, equity or equity-linked securities.

*Managing Generic Competition and Loss of Exclusivity*

Certain of our products face the expiration of their patent or regulatory exclusivity in 2019 or in later years, following which we anticipate generic competition of these products. In addition, in certain cases, as a result of negotiated settlements of some of our patent infringement proceedings against generic competitors, we have granted licenses to such generic companies, which will permit them to enter the market with their generic products prior to the expiration of our applicable patent or regulatory exclusivity. Finally, for certain of our products that lost patent or regulatory exclusivity in prior years, we anticipate that generic competitors may launch in 2019 or in later years. Following a loss of exclusivity of and/or generic competition for a product, we would anticipate that product sales for such product would decrease significantly shortly following the loss of exclusivity or entry of a generic competitor. Where we have the rights, we may elect to launch an authorized generic of such product (either ourselves or through a third party) prior to, upon or following generic entry, which may mitigate the anticipated decrease in product sales; however, even with launch of an authorized generic, the decline in product sales of such product would still be expected to be significant, and the effect on our future revenues could be material.

A number of our products already face generic competition. Prior to and during 2019, in the U.S., these products include, among others, Ammonul®, Benzaclin®, Bupap®, Cuprimine®, Edecrin®, Elidel®, Glumetza®, Istalol®, Isuprel®, Locoid® Lotion, Lotemax® Suspension, Mephyton®, Nitropress®, Solodyn®, Syprine®, Virazole®, Uceris® Tablet, Wellbutrin XL®, Xenazine®, Zegerid® and Zovirax® cream. In Canada, these products include, among others, Glumetza®, Sublinox® and Wellbutrin® XL.

Based on current patent expiration dates, settlement agreements and/or competitive information, our key products that began facing or those which we believe will be facing potential loss of exclusivity and/or generic competition in the U.S. during the years 2019 through 2023 include, but are not limited to, Apriso®, Clindagel®, Cuprimine®, Lotemax® Gel, Lotemax® Suspension, Migranal®, Noritate®, Onexton®, PreserVision®, Prolensa®, Solodyn®, Targretin® Gel, Xerese®, Zovirax® cream and certain other products subject to settlement agreements. Aggregate revenues from key products that we believe will face potential loss of exclusivity and/or generic competition in the U.S. during: (i) 2019 represented 9% and 8%; (ii) 2020 represented 1% and 1%; (iii) 2021 represented 4% and 4%; (iv) 2022 represented less than 1% and 1%; and (v) 2023 represented 2% and 2% of our aggregate U.S., Mexico and Puerto Rico revenues for 2018 and 2017, respectively. These dates may change based on, among other things, successful challenge to our patents, settlement of existing or future patent litigation and at-risk generic launches.

In addition, for a number of our products (including Apriso®, Uceris®, Relistor®, Plenvu®, Xifaxan® 200mg, Glumetza®, Jublia®, Prolensa® and Bryhali™ in the U.S.), we have commenced (or anticipate commencing) infringement proceedings against potential generic competitors in the U.S. and Canada. If we are not successful in these proceedings, we may face increased generic competition for these products.

*Apriso® Extended Release Capsules Patent Litigation* - On March 27, 2017, the Company initiated litigation against Teva Pharmaceuticals USA, Inc. ("Teva"), which alleged infringement by Teva of one or more claims of U.S. Patent No. 8,865,688, which protects the formulation for Apriso® extended-release capsules 0.375g. In July, we announced that we had agreed to resolve the outstanding intellectual property litigation with Teva regarding Apriso® extended-release capsules 0.375g. As part of the settlement, the parties agreed to dismiss all litigation related to Apriso®, and intellectual property protecting Apriso® will remain intact and enforceable. In addition, the Company will grant Teva a non-exclusive license effective October 1, 2021 to the intellectual property relating to Apriso® in the United States (provided that Teva will be able to begin marketing prior to such date if another generic version of the product is granted approval and starts selling or distributing such generic prior to October 1, 2021). The final patent expiry on Apriso® is 2030. The Company has now resolved litigation related to Apriso® with two out of the four Paragraph IV filers.

*Relistor® Tablets Patent Litigation* - On December 6, 2016, the Company initiated litigation against Actavis, which alleged infringement by Actavis of one or more claims of U.S. Patent No. 8,524,276 (the "'276 Patent"), which protects the formulation of RELISTOR® tablets. Actavis had challenged the validity of such patent and alleged non-infringement by its generic version of such product. In July 2019, we announced that the U.S. District Court of New Jersey had upheld the validity of and determined that Actavis infringed the '276 Patent, expiring in March 2031.

*Xifaxan® 550mg Patent Litigation* - On March 23, 2016, the Company initiated litigation against Actavis, which alleged infringement by Actavis of one or more claims of each of the Xifaxan® patents. On September 12, 2018, we announced that we had reached an agreement with Actavis that resolved the existing litigation and eliminated the pending challenges to our intellectual property protecting Xifaxan® (rifaximin) 550 mg tablets. As part of the agreement, the parties agreed to dismiss all litigation related to Xifaxan® (rifaximin), Actavis acknowledged the validity of the licensed patents for Xifaxan® (rifaximin) 550 mg tablets and all intellectual property protecting Xifaxan® (rifaximin) 550 mg tablets will remain intact and enforceable until expiry in 2029. The agreement also grants Actavis a non-exclusive license to the intellectual property relating to Xifaxan® (rifaximin) 550 mg tablets in the United States beginning January 1, 2028 (or earlier under certain circumstances). The Company will not make any financial payments or other transfers of value as part of the agreement. In addition, under the terms of the agreement, beginning January 1, 2028 (or earlier under certain circumstances), Actavis will have the option to: (1) market a royalty-free generic version of Xifaxan® tablets, 550 mg, should it receive approval from the FDA on its ANDA, or (2) market an authorized generic version of Xifaxan® tablets, 550 mg, in which case, we will receive a share of the economics from Actavis on its sales of such an authorized generic. Actavis will be able to commence such marketing earlier if another generic rifaximin product is granted approval and such other generic rifaximin product begins to be sold or distributed before January 1, 2028.

*Generic Competition to Uceris®* - In July 2018, a generic competitor launched a product which will directly compete with our Uceris® Tablet product. As disclosed in our prior filings, the Company initiated various infringement proceedings against this and other generic competitors. The Company continues to believe that its Uceris® Tablet-related patents are enforceable and is proceeding in the ongoing litigation between the Company and the generic competitor; however, the ultimate outcome of the matter is not predictable. The ultimate impact of this generic competitor on our future revenues cannot be predicted; however, Uceris® Tablet revenues for the six months ended June 30, 2019 and 2018 were approximately $13 million and $70 million, respectively, and for the full years 2018 and 2017 were approximately $84 million and $134 million, respectively.

*Generic Competition to Jublia®* - On June 6, 2018, the U.S. Patent and Trial Appeal Board completed its inter partes review for an Orange Book-listed patent covering Jublia® and issued a written determination invalidating such patent. Although the Company is not aware of any imminent launches of a generic competitor to Jublia®, the ultimate impact of this decision on our future revenues cannot be predicted. Jublia® revenues for the six months ended June 30, 2019 and 2018 were approximately $47 million and $39 million, respectively, and for the full years 2018 and 2017 were approximately $89 million and $96 million, respectively. The Company continues to believe that the Jublia®-related patent is valid and enforceable and, on August 7, 2018, an appeal of this decision was filed. The ultimate outcome of this matter is not predictable. Jublia® continues to be covered by seven remaining Orange Book-listed patents owned by the Company, which expire in the years 2028 through 2034. In August and September 2018, we received notices of the filing of a number of ANDAs with paragraph IV certification, and have timely filed patent infringement suits against these ANDA filers.

See Note 19, "LEGAL PROCEEDINGS" to our unaudited interim Consolidated Financial Statements elsewhere in this Form 10-Q, as well as Note 20, "LEGAL PROCEEDINGS" of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC and the Canadian Securities Administrators on SEDAR on February 20, 2019 for further details regarding certain infringement proceedings.

The risks of generic competition are a fact of the health care industry and are not specific to our operations or product portfolio. These risks are not avoidable, but we believe they are manageable. To manage these risks, our leadership team continually evaluates the impact that generic competition may have on future profitability and operations. In addition to aggressively defending the Company's patents and other intellectual property, our leadership team makes operational and investment decisions regarding these products and businesses at risk, not the least of which are decisions regarding our pipeline. Our leadership team actively manages the Company's pipeline in order to identify what we believe are the proper projects to pursue. Innovative and realizable projects aligned with our core businesses that are expected to provide incremental and sustainable revenues and growth into the future. We believe that our current pipeline is strong enough to meet these objectives and provide future sources of revenues, in our core businesses, sufficient enough to sustain our growth and corporate health as other products in our established portfolio face generic competition and lose momentum.

We believe that we have a well-established product portfolio that is diversified within our core businesses. We also believe that we have a robust pipeline that not only provides for the next generation of our existing products, but also brings new solutions into the market. Revenues for our Significant Seven were greater than $150 million in 2018 and approximately $75 million in 2017, as several of these products have only recently been launched. However, we believe the potential revenues for our Significant Seven to be substantial.

See Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC and the Canadian Securities Administrators on SEDAR on February 20, 2019 for additional information on our competition risks.

**Business Trends**

In addition to the acquisition and divestiture actions previously outlined, the following events have affected and are expected to affect our business trends:

*U.S. Health Care Reform*

The U.S. federal and state governments continue to propose and pass legislation designed to regulate the health care industry. In March 2010, the Patient Protection and Affordable Care Act (the “ACA”) was enacted in the U.S. The ACA contains several provisions that impact our business, including: (i) an increase in the minimum Medicaid rebate to states participating in the Medicaid program, (ii) the extension of the Medicaid rebates to Managed Care Organizations that dispense drugs to Medicaid beneficiaries, (iii) the expansion of the 340(B) Public Health Services drug pricing program, which provides outpatient drugs at reduced rates, to include additional hospitals, clinics and health care centers and (iv) a fee payable to the federal government based on our prior-calendar-year share relative to other companies of branded prescription drug sales to specified government programs.

In addition, in 2013: (i) federal subsidies began to be phased in for brand-name prescription drugs filled in the Medicare Part D cover gap and (ii) the law requires the medical device industry to subsidize health care reform in the form of a 2.3% excise tax on U.S. sales of most medical devices. However, the Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, included a two-year moratorium on the medical device excise tax. On January 22, 2018, with the passage of continuing appropriations through February 8, 2018 (HR 195), the moratorium on the medical device excise tax was further extended until January 1, 2020. The ACA also included provisions designed to increase the number of Americans covered by health insurance. In 2014, the ACA's private health insurance exchanges began to operate. The ACA also allows states to expand Medicaid coverage with most of the expansion’s cost paid for by the federal government.

For 2018 and 2017, we incurred costs of $36 million and $48 million, respectively, related to the annual fee assessed on prescription drug manufacturers and importers that sell branded prescription drugs to specified U.S. government programs (e.g., Medicare and Medicaid). For 2018 and 2017, we also incurred costs of $90 million and $106 million, respectively, on Medicare Part D utilization incurred by beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the "donut hole").

On July 28, 2014, the U.S. Internal Revenue Service issued final regulations related to the branded pharmaceutical drug annual fee pursuant to the ACA. Under the final regulations, an entity's obligation to pay the annual fee is triggered by qualifying sales in the current year, rather than the liability being triggered upon the first qualifying sale of the following year. We adopted this guidance in the third quarter of 2014, and it did not have a material impact on our financial position or results of operations.

The financial impact of the ACA will be affected by certain additional developments over the next few years, including pending implementation guidance and certain health care reform proposals. Additionally, policy efforts designed specifically to reduce patient out-of-pocket costs for medicines could result in new mandatory rebates and discounts or other pricing restrictions. Also, it is possible, as discussed further below, that under the current administration, legislation will be passed by Congress repealing the ACA in whole or in part. Adoption of legislation at the federal or state level could materially affect demand for, or pricing of, our products.

In 2018, we faced uncertainties due to federal legislative and administrative efforts to repeal, substantially modify or invalidate some or all of the provisions of the ACA. However, we believe there is low likelihood of repeal of the ACA, given the recent failure of the Senate's multiple attempts to repeal various combinations of ACA provisions. There is no assurance that any replacement or administrative modifications of the ACA will not adversely affect our business and financial results, particularly if the replacing legislation reduces incentives for employer-sponsored insurance coverage, and we cannot predict how future federal or state legislative or administrative changes relating to the reform will affect our business.

Other legislative efforts relating to drug pricing have been proposed and considered at the U.S. federal and state level. We also anticipate that Congress, state legislatures and third-party payors may continue to review and assess alternative health care delivery and payment systems and may in the future propose and adopt legislation or policy changes or implementations affecting additional fundamental changes in the health care delivery system.

## SELECTED FINANCIAL INFORMATION

*Organic Revenues and Organic Growth Rates (non-GAAP)*

Organic growth, a non-GAAP metric, is defined as a change on a period-over-period basis in revenues on a constant currency basis (if applicable) excluding the impact of recent acquisitions, divestitures and discontinuations. Organic revenue growth (non-GAAP) is growth in GAAP Revenue (its most directly comparable GAAP financial measure), adjusted for certain items, of businesses that have been owned for one or more years. The Company uses organic revenue (non-GAAP) and organic revenue growth (non-GAAP) to assess performance of its reportable segments, and the Company in total, without the impact of foreign currency exchange fluctuations and recent acquisitions, divestitures and product discontinuations. The Company believes that such measures are useful to investors as they provide a supplemental period-to-period comparison.

Organic revenue growth (non-GAAP) reflects adjustments for: (i) the impact of period-over-period changes in foreign currency exchange rates on revenues and (ii) the revenues associated with acquisitions, divestitures and discontinuations of businesses divested and/or discontinued. These adjustments are determined as follows:

*Foreign currency exchange rates:* Although changes in foreign currency exchange rates are part of our business, they are not within management's control. Changes in foreign currency exchange rates, however, can mask positive or negative trends in the underlying business performance. The impact for changes in foreign currency exchange rates is determined as the difference in the current period reported revenues at their current period currency exchange rates and the current period reported revenues revalued using the monthly average currency exchange rates during the comparable prior period.

*Acquisitions, divestitures and discontinuations:* In order to present period-over-period organic revenues (non-GAAP) on a comparable basis, revenues associated with acquisitions, divestitures and discontinuations are adjusted to include only revenues from those businesses and assets owned during both periods. Accordingly, organic revenue growth (non-GAAP) excludes from the current period, all revenues attributable to each acquisition for twelve months subsequent to the day of acquisition, as there are no revenues from those businesses and assets included in the comparable prior period. Organic revenue growth (non-GAAP) excludes from the prior period (but not the current period), all revenues attributable to each divestiture and discontinuance during the twelve months prior to the day of divestiture or discontinuance, as there are no revenues from those businesses and assets included in the comparable current period.

Please refer to the tables of organic revenues (non-GAAP) and organic revenue growth (non-GAAP) rates presented in the subsequent section titled "Reportable Segment Revenues and Profits" for a reconciliation of GAAP revenues to organic revenues (non-GAAP).

The following table provides selected unaudited financial information for the three and six months ended June 30, 2019 and 2018:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in millions, except per share data)* | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Revenues | $ 2,152 | $ 2,128 | $ 24 | $ 4,168 | $ 4,123 | $ 45 |
| Operating income (loss) | $ 257 | $ (245) | $ 502 | $ 544 | $ (2,526) | $ 3,070 |
| Loss before benefit from (provision for) income taxes | $ (179) | $ (734) | $ 555 | $ (301) | $ (3,428) | $ 3,127 |
| Net loss attributable to Bausch Health Companies Inc. | $ (171) | $ (873) | $ 702 | $ (223) | $ (3,454) | $ 3,231 |
| | | | | | | |
| Basic and diluted loss per share attributable to Bausch Health Companies Inc.: | $ (0.49) | $ (2.49) | $ 2.00 | $ (0.63) | $ (9.84) | $ 9.21 |

### Financial Performance

***Summary of the Three Months Ended June 30, 2019 Compared to the Three Months Ended June 30, 2018***

Revenue for the three months ended June 30, 2019 and 2018 was $2,152 million and $2,128 million, respectively, an increase of $24 million, or 1%. The increase was primarily driven by: (i) higher net average realized pricing, (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, (iii) higher net volumes and (iv) an increase in other revenues. The increase in net average realized pricing was the result of higher gross selling prices, primarily in our Salix segment. The net increase in volumes was driven by our Bausch + Lomb/International segment. These increases in Revenue were partially offset by: (i) the unfavorable effect of foreign currencies, primarily in Europe

and Asia and (ii) the impact of divestitures and discontinuations. The changes in our segment revenues and segment profits are discussed in further detail in the subsequent section titled "Reportable Segment Revenues and Profits".

Operating income for the three months ended June 30, 2019 was $257 million, as compared to an Operating loss for the three months ended June 30, 2018 of $245 million, respectively, an increase of $502 million and reflects, among other factors:

- an increase in contribution (Product sales revenue less Cost of goods sold, excluding amortization and impairments of intangible assets) of $26 million primarily due to: (i) higher gross selling prices, (ii) the incremental contribution of the sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, (iii) better inventory management and (iv) an increase in net volumes, partially offset by: (i) the unfavorable effect of foreign currencies, (ii) the impact of divestitures and discontinuations and (iii) higher third-party royalty costs;
- an increase in Selling, general and administrative expenses ("SG&A") of $9 million primarily due to: (i) higher selling, advertising and promotion expenses, (ii) costs in 2019 attributable to our IT infrastructure improvement projects and (iii) the impact of the acquisition of certain assets of Synergy. The increase was partially offset by: (i) the favorable impact of foreign currencies, (ii) lower compensation expense and (iii) lower costs related to professional services;
- an increase in R&D of $23 million;
- a decrease in Amortization of intangible assets of $253 million primarily due to: (i) the impact of the change in the estimated useful life of the Xifaxan® related intangible assets made in September 2018 to reflect management's changes in assumptions and (ii) lower amortization as a result of impairments to intangible assets in prior periods;
- a decrease in Asset impairments of $288 million, primarily related to the decrease in forecasted sales during the three months ended June 30, 2018 for a certain product line facing generic competition; and
- an increase in Other expense, net of $8 million primarily attributable to: (i) costs associated with an upfront payment to enter into an exclusive licensing agreement incurred in 2019 and (ii) an increase Litigation and other matters during the three months ended June 30, 2019.

Operating income for the three months ended June 30, 2019 was $257 million and Operating loss for the three months ended June 30, 2018 of $245 million, and included non-cash charges for Depreciation and amortization of intangible assets of $531 million and $784 million, Asset impairments of $13 million and $301 million and Share-based compensation of $27 million and $22 million for the three months ended June 30, 2019 and 2018, respectively.

Our Loss before benefit from (provision for) income taxes for the three months ended June 30, 2019 and 2018 was $179 million and $734 million, respectively, a decrease of $555 million. The decrease in our Loss before benefit from (provision for) income taxes is primarily attributable to: (i) the increase in our operating results of $502 million, as previously discussed, (ii) a decrease in Interest expense of $26 million as a result of lower principal amounts of outstanding debt partially offset by the effect of higher interest rates during the three months ended June 30, 2019, (iii) a decrease in Loss on extinguishment of debt of $15 million, and (iv) the net change in Foreign exchange and other of $12 million.

Net loss attributable to Bausch Health Companies Inc. for the three months ended June 30, 2019 and 2018 was $171 million and $873 million, respectively, an increase in our reported results of $702 million. The increase in our results was primarily due to: (i) the decrease in our Loss before benefit from (provision for) income taxes of $555 million, as previously discussed and (ii) the favorable change in Benefit from (provision for) income taxes of $147 million.

***Summary of the Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018***

Revenue for the six months ended June 30, 2019 and 2018 was $4,168 million and $4,123 million, respectively, an increase of $45 million, or 1%. The increase was primarily driven by: (i) higher gross selling prices, (ii) higher net volumes, (iii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy and (iv) lower sales deductions. The higher gross selling prices was primarily in our Salix segment. The increase in net volumes was driven by our Bausch + Lomb/International segment. These increases in Revenue were partially offset by: (i) the unfavorable effect of foreign currencies, primarily in Europe and Asia and (ii) the impact of divestitures and discontinuations. The changes in our segment revenues and segment profits are discussed in further detail in the subsequent section titled "Reportable Segment Revenues and Profits".

Operating income for the six months ended June 30, 2019 was $544 million, as compared to Operating loss for the six months ended June 30, 2018 of $2,526 million, an increase in our reported results of $3,070 million and reflects, among other factors:

- an increase in contribution (Product sales revenue less Cost of goods sold, excluding amortization and impairments of intangible assets) of $86 million. The increase was primarily driven by: (i) higher gross selling prices and lower sales deductions, (ii) better inventory management, (iii) an increase in net volumes and (iv) the incremental contribution of the sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, partially offset by: (i) the unfavorable effect of foreign currencies and (ii) the impact of divestitures and discontinuations;

- an increase in SG&A of $5 million primarily attributable to: (i) higher selling, advertising and promotion expenses, (ii) costs in 2019 attributable to our IT infrastructure improvement projects and (iii) the impact of the acquisition of certain assets of Synergy. The increase was partially offset by: (i) the favorable impact of foreign currencies, (ii) lower costs related to professional services and (iii) lower compensation expense;

- an increase in R&D of $48 million;

- a decrease in Amortization of intangible assets of $507 million primarily due to: (i) the impact of the change in the estimated useful life of the Xifaxan® related intangible assets made in September 2018 to reflect management's changes in assumptions and (ii) lower amortization as a result of impairments to intangible assets in prior periods;

- a decrease in Goodwill impairments of $2,213 million, as a result of impairments in 2018 to the goodwill of our: (i) Salix reporting unit upon adopting the new guidance for goodwill impairment accounting at January 1, 2018 and (ii) Ortho Dermatologics reporting unit due to unforeseen changes in business dynamics during the three months ended March 31, 2018;

- a decrease in Asset impairments of $329 million, primarily related to the decrease in forecasted sales in 2018 for a certain product line facing generic competition; and

- a decrease in Other expense, net of $7 million primarily attributable to: (i) the net gain on sale of assets in 2019 and (ii) a decrease in Litigation and other matters. These decreases were partially offset by acquisition-related costs and costs associated with an upfront payment to enter into an exclusive licensing agreement incurred in 2019.

Operating income for the six months ended June 30, 2019 was $544 million and Operating loss for the six months ended June 30, 2018 of $2,526 million, and included non-cash charges for Depreciation and amortization of intangible assets of $1,063 million and $1,570 million, Goodwill impairments of $0 and $2,213 million, Asset impairments of $16 million and $345 million and Share-based compensation of $51 million and $43 million, respectively.

Our Loss before benefit from (provision for) income taxes for the six months ended June 30, 2019 and 2018 was $301 million and $3,428 million, respectively, a decrease of $3,127 million. The decrease in our Loss before benefit from (provision for) income taxes is primarily attributable to: (i) the increase in our operating results of $3,070 million, as previously discussed, (ii) a decrease in Interest expense of $36 million as a result of lower principal amounts of outstanding debt partially offset by the effect of higher interest rates during the six months ended June 30, 2019 and (iii) a decrease in Loss on extinguishment of debt of $35 million. The decrease in our Loss before benefit from (provision for) income taxes was partially offset by the net change in Foreign exchange and other of $15 million.

Net loss attributable to Bausch Health Companies Inc. for the six months ended June 30, 2019 and 2018 was $223 million and $3,454 million, respectively, an increase of $3,231 million. The increase in our results was primarily due to: (i) the decrease in our Loss before benefit from (provision for) income taxes of $3,127 million, as previously discussed and (ii) the favorable change in Benefit from (provision for) income taxes of $106 million.

## RESULTS OF OPERATIONS

Our unaudited operating results for the three and six months ended June 30, 2019 and 2018 were as follows:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in millions)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Revenues | | | | | | |
| Product sales | $ 2,122 | $ 2,100 | $ 22 | $ 4,111 | $ 4,065 | $ 46 |
| Other revenues | 30 | 28 | 2 | 57 | 58 | (1) |
| | 2,152 | 2,128 | 24 | 4,168 | 4,123 | 45 |
| Expenses | | | | | | |
| Cost of goods sold (excluding amortization and impairments of intangible assets) | 580 | 584 | (4) | 1,104 | 1,144 | (40) |
| Cost of other revenues | 14 | 10 | 4 | 27 | 23 | 4 |
| Selling, general and administrative | 651 | 642 | 9 | 1,238 | 1,233 | 5 |
| Research and development | 117 | 94 | 23 | 234 | 186 | 48 |
| Amortization of intangible assets | 488 | 741 | (253) | 977 | 1,484 | (507) |
| Goodwill impairments | — | — | — | — | 2,213 | (2,213) |
| Asset impairments | 13 | 301 | (288) | 16 | 345 | (329) |
| Restructuring and integration costs | 4 | 7 | (3) | 24 | 13 | 11 |
| Acquisition-related contingent consideration | 20 | (6) | 26 | (1) | (4) | 3 |
| Other expense, net | 8 | — | 8 | 5 | 12 | (7) |
| | 1,895 | 2,373 | (478) | 3,624 | 6,649 | (3,025) |
| Operating income (loss) | 257 | (245) | 502 | 544 | (2,526) | 3,070 |
| Interest income | 3 | 3 | — | 7 | 6 | 1 |
| Interest expense | (409) | (435) | 26 | (815) | (851) | 36 |
| Loss on extinguishment of debt | (33) | (48) | 15 | (40) | (75) | 35 |
| Foreign exchange and other | 3 | (9) | 12 | 3 | 18 | (15) |
| Loss before benefit from (provision for) income taxes | (179) | (734) | 555 | (301) | (3,428) | 3,127 |
| Benefit from (provision for) income taxes | 9 | (138) | 147 | 83 | (23) | 106 |
| Net loss | (170) | (872) | 702 | (218) | (3,451) | 3,233 |
| Net income attributable to noncontrolling interest | (1) | (1) | — | (5) | (3) | (2) |
| Net loss attributable to Bausch Health Companies Inc. | $ (171) | $ (873) | $ 702 | $ (223) | $ (3,454) | $ 3,231 |

***Three Months Ended June 30, 2019 Compared to the Three Months Ended June 30, 2018***

**Revenues**

The Company's revenues are primarily generated from product sales, primarily in the therapeutic areas of eye-health, GI and dermatology, that consist of: (i) branded pharmaceuticals, (ii) generic and branded generic pharmaceuticals, (iii) OTC products and (iv) medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment and aesthetics devices). Other revenues include alliance and service revenue from the licensing and co-promotion of products and contract service revenue primarily in the areas of dermatology and topical medication.

Our revenue was $2,152 million and $2,128 million for the three months ended June 30, 2019 and 2018, respectively, an increase of $24 million, or 1%. The increase was primarily driven by: (i) higher gross selling prices of $53 million, (ii) the incremental product sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, of $17 million, (iii) higher net volumes of $12 million and (iv) an increase in other revenues of $2 million. The increase in gross selling prices was primarily in our Salix segment. The increase in net volumes was driven by our Bausch + Lomb/International segment. The increases in our revenues were partially offset by: (i) the unfavorable effect of foreign currencies, primarily in Europe and Asia, of $38 million, (ii) the impact of divestitures and discontinuations of $16 million and (iii) net higher sales deductions of $6 million primarily in our Diversified Products segment, partially offset by lower sales deductions in our Salix segment.

Our segment revenues and segment profits for the three months ended June 30, 2019 and 2018 are discussed in further detail in the subsequent section titled "Reportable Segment Revenues and Profits".

***Cash Discounts and Allowances, Chargebacks and Distribution Fees***

As is customary in the pharmaceutical industry, gross product sales are subject to a variety of deductions in arriving at net product sales. Provisions for these deductions are recognized concurrently with the recognition of gross product sales. These provisions include cash discounts and allowances, chargebacks, and distribution fees, which are paid or credited to direct customers, as well as rebates and returns, which can be paid or credited to direct and indirect customers. Price appreciation credits are generated when we increase a product's wholesaler acquisition cost ("WAC") under our contracts with certain wholesalers. Under such contracts, we are entitled to credits from such wholesalers for the impact of that WAC increase on inventory on hand at the wholesalers. In wholesaler contracts such credits are offset against the total distribution service fees we pay on all of our products to each such wholesaler. In addition, some payor contracts require discounting if a price increase or series of price increases in a contract period exceeds a negotiated threshold. Provision balances relating to amounts payable to direct customers are netted against trade receivables and balances relating to indirect customers are included in accrued liabilities.

We actively manage these offerings, focusing on the incremental costs of our patient assistance programs, the level of discounting to non-retail accounts and identifying opportunities to minimize product returns. We also concentrate on managing our relationships with our payors and wholesalers, reviewing the ranges of our offerings and being disciplined as to the amount and type of incentives we negotiate. Provisions recorded to reduce gross product sales to net product sales and revenues for the three months ended June 30, 2019 and 2018 were as follows:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| *(in millions)* | Amount | Pct. | Amount | Pct. |
| Gross product sales | $ 3,473 | 100.0% | $ 3,630 | 100.0% |
| Provisions to reduce gross product sales to net product sales | | | | |
| Discounts and allowances | 202 | 5.8% | 222 | 6.1% |
| Returns | 45 | 1.3% | 75 | 2.1% |
| Rebates | 567 | 16.4% | 695 | 19.1% |
| Chargebacks | 487 | 14.0% | 470 | 12.9% |
| Distribution fees | 50 | 1.4% | 68 | 1.9% |
| Total provisions | 1,351 | 38.9% | 1,530 | 42.1% |
| Net product sales | 2,122 | 61.1% | 2,100 | 57.9% |
| Other revenues | 30 | | 28 | |
| Revenues | $ 2,152 | | $ 2,128 | |

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 38.9% and 42.1% for the three months ended June 30, 2019 and 2018, respectively. The decrease in cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales was primarily driven by:

- discounts and allowances as a percentage of gross product sales was lower primarily due to the impact from lower gross product sales and lower discount rates for Glumetza® authorized generic ("AG"), Xenazine® AG, Ofloxacin and Solodyn® AG. The lower discounts and allowances as a percentage of gross product sales was partially offset by the impact of: (i) the release of certain generics such as Uceris® AG and Elidel® AG and (ii) higher sales of Xifaxan®;

- returns as a percentage of gross product sales was lower primarily due to the impact of: (i) lower return rates for products, such as Glumetza® SLX and Xifaxan® and (ii) lower sales of Isuprel®. The lower returns as a percentage of gross product sales was partially offset by the impact of the releases of certain generic products such as Solodyn® AG;

- rebates as a percentage of gross product sales were lower primarily due to decreases in volumes for certain products which carry higher rebate rates such as Solodyn®, Elidel®, Retin-A Micro® 0.06%, and Julbia®. The decreases in year-over-year volumes were due in part to generic competition and the release of certain branded generics. These decreases were partially offset by the impact of: (i) increased sales of products that carry higher contractual rebates and co-pay assistance programs, including the impact of incremental rebates from contractual price increase limitations for promoted products, such as Xifaxan® and Siliq®, (ii) increased rebate rates for Apriso® and Diastat® and (iii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy;

- chargebacks as a percentage of gross product sales were higher primarily due to the impact of: (i) higher gross product sales of Glumetza® SLX, Xifaxan® and Syprine® AG and (ii) the release of certain generics, such as Uceris® AG and Elidel® AG. The higher chargebacks as a percentage of gross product sales were partially offset by the impact of lower gross product sales of: (i) certain branded products, such as Isuprel® and Retin-A Micro® 0.06% and (ii) certain generic products, such as Xenazine® AG, Zegerid® AG and Ofloxacin; and

- distribution service fees as a percentage of gross product sales were lower primarily due to the impact of lower gross product sales of certain branded products, such as Solodyn®, Uceris® Tablets and Elidel®, as a result of generic releases. The lower distribution service fees as a percentage of gross product sales were partially offset by the impact of: (i) higher sales of Xifaxan® and other branded products and (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy. No price appreciation credits were provided during the three months ended June 30, 2019 and 2018.

**Expenses**

***Cost of Goods Sold (excluding amortization and impairments of intangible assets)***

Cost of goods sold primarily includes: manufacturing and packaging; the cost of products we purchase from third parties; royalty payments we make to third parties; depreciation of manufacturing facilities and equipment; and lower of cost or market adjustments to inventories. Cost of goods sold excludes the amortization and impairments of intangible assets.

Cost of goods sold was $580 million and $584 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of $4 million, or 1%. The decrease was primarily driven by: (i) the impact of divestitures and discontinuations and (ii) better inventory management. The decrease was partially offset by: (i) the incremental costs of sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, (ii) the increase in net volumes and (iii) higher third-party royalty costs.

Cost of goods sold as a percentage of product sales revenue was 27.3% and 27.8% for the three months ended June 30, 2019 and 2018, respectively, a decrease of 0.5 percentage points. Costs of goods sold as a percentage of revenue was favorably impacted as a result of: (i) the impact of divestitures and discontinuations, which generally had lower gross margins than the balance of our product portfolio and (ii) better inventory management. These factors were partially offset by the amortization of acquisition accounting adjustments related to the inventories we acquired as part of the acquisition of certain assets of Synergy.

***Selling, General and Administrative Expenses***

SG&A expenses primarily include: employee compensation associated with sales and marketing, finance, legal, information technology, human resources and other administrative functions; certain outside legal fees and consultancy costs;

product promotion expenses; overhead and occupancy costs; depreciation of corporate facilities and equipment; and other general and administrative costs.

SG&A expenses were $651 million and $642 million for the three months ended June 30, 2019 and 2018, respectively, an increase of $9 million, or 1%. The increase was primarily driven by: (i) higher selling, advertising and promotion expenses, (ii) costs in 2019 attributable to our IT infrastructure improvement projects and (iii) the impact of the acquisition of certain assets of Synergy. The increase was partially offset by: (i) the favorable impact of foreign currencies, (ii) lower compensation expense and (iii) lower costs related to professional services.

***Research and Development Expenses***

Included in Research and development are costs related to our product development and quality assurance programs. Expenses related to product development include: employee compensation costs; overhead and occupancy costs; depreciation of research and development facilities and equipment; clinical trial costs; clinical manufacturing and scale-up costs; and other third-party development costs. Quality assurance are the costs incurred to meet evolving customer and regulatory standards and include: employee compensation costs; overhead and occupancy costs; amortization of software; and other third-party costs.

R&D expenses were $117 million and $94 million for the three months ended June 30, 2019 and 2018, respectively, an increase of $23 million, or 24%. R&D expenses as a percentage of Product revenue were approximately 6% and 4% for the three months ended June 30, 2019 and 2018, respectively, an increase of approximately 2 percentage points.

***Amortization of Intangible Assets***

Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives, generally 2 to 20 years.

Amortization of intangible assets was $488 million and $741 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of $253 million. The decrease was primarily due to: (i) the impact of the change in the estimated useful life of the Xifaxan® related intangible assets made in September 2018 to reflect management's changes in assumptions and (ii) lower amortization as a result of impairments to intangible assets in prior periods. Management continually assesses the useful lives related to the Company's long-lived assets to reflect the most current assumptions.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Consolidated Financial Statements regarding further details related to the Amortization of intangible assets.

***Asset Impairments***

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company continues to monitor the recoverability of its finite-lived intangible assets and tests the intangible assets for impairment if indicators of impairment are present.

Asset impairments were $13 million and $301 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of $288 million. Asset impairments for the three months ended June 30, 2019 primarily reflect decreases in forecasted sales of a certain product line due to generic competition. Asset impairments for the three months ended June 30, 2018 include impairments of: (i) $289 million reflecting decreases in forecasted sales for the Uceris® Tablet product and other product lines due to generic competition, (ii) $11 million, in aggregate, related to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core businesses and revisions to forecasted sales and (iii) $1 million related to assets being classified as held for sale.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Consolidated Financial Statements regarding further details related to our intangible assets.

***Restructuring and Integration Costs***

Restructuring and integration costs were $4 million and $7 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of $3 million. We have substantially completed the integration of the businesses acquired prior to 2016. The Company continues to evaluate opportunities to streamline its operations and identify additional cost savings globally. Although a specific plan does not exist at this time, the Company may identify and take additional exit and cost-rationalization restructuring actions in the future, the costs of which could be material.

See Note 5, "RESTRUCTURING AND INTEGRATION COSTS" to our unaudited interim Consolidated Financial Statements for further details regarding these actions.

***Acquisition-Related Contingent Consideration***

Acquisition-related contingent consideration primarily consists of potential milestone payments and royalty obligations associated with businesses and assets we acquired in the past. These obligations are recorded in the Consolidated Balance Sheet at their estimated fair values at the acquisition date, in accordance with the acquisition method of accounting. The fair value of the acquisition-related contingent consideration is remeasured each reporting period, with changes in fair value recorded in the Consolidated Statements of Operations. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in fair value measurement accounting.

Acquisition-related contingent consideration was a loss of $20 million for the three months ended June 30, 2019, and included net fair value adjustments of $15 million and accretion for the time value of money of $5 million. Acquisition-related contingent consideration was a gain of $6 million for the three months ended June 30, 2018, and included net fair value adjustments of $12 million, partially offset by accretion for the time value of money of $6 million.

***Other Expense, Net***

Other expense, net for the three months ended June 30, 2019 and 2018 consists of the following:

| | Three Months Ended June 30, | |
|---|---|---|
| *(in millions)* | **2019** | **2018** |
| Net loss on sale of assets | $ 1 | $ — |
| Acquisition-related costs | — | 1 |
| Litigation and other matters | 1 | (1) |
| Other, net | 6 | — |
| | $ 8 | $ — |

Included in Other, net in the table above for the three months ended June 30, 2019, is $8 million of in-process research and development costs associated with the upfront payment to enter into an exclusive licensing agreement.

**Non-Operating Income and Expense**

***Interest Expense***

Interest expense primarily consists of interest payments due and amortization of debt discounts and deferred financing costs on indebtedness under our credit facilities and notes.

Interest expense was $409 million and $435 million, and included non-cash amortization and write-offs of debt discounts and deferred financing costs of $15 million and $21 million, for the three months ended June 30, 2019 and 2018, respectively. Interest expense for the three months ended June 30, 2019 decreased $26 million, or 6%, as compared to the three months ended June 30, 2018, primarily due to lower principal amounts of outstanding long-term debt. The weighted average stated rates of interest as of June 30, 2019 and 2018 were 6.44% and 6.28%, respectively.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt represents the differences between the amounts paid to settle extinguished debts and the carrying value of the related extinguished debt. Loss on extinguishment of debt was $33 million and $48 million for the three months ended June 30, 2019 and 2018, respectively, and is associated with a series of transactions which allowed us to refinance portions of our debt arrangements.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Consolidated Financial Statements for further details.

***Foreign Exchange and Other***

Foreign exchange and other was a gain of $3 million and a loss of $9 million for the three months ended June 30, 2019 and 2018, respectively, a favorable net change of $12 million. Foreign exchange gains/losses include translation gains/losses on intercompany loans, primarily on euro-denominated intercompany loans.

**Income Taxes**

Benefit from income taxes was $9 million and Provision for income taxes was $138 million for the three months ended June 30, 2019 and 2018, respectively, an increase in the Benefit from income taxes of $147 million.

Our effective income tax rate for the three months ended June 30, 2019 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of certain tax matters, primarily related to: (a) the net tax provision related to uncertain tax positions and (b) the adjustments for book to income tax return provisions.

Our effective income tax rate for the three months ended June 30, 2018 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of: (a) the tax consequences of internal restructuring efforts, (b) the net tax benefit related to the impairment of intangibles assets previously discussed and (c) the adjustments for book to income tax return provisions.

See Note 17, "INCOME TAXES" to our unaudited interim Consolidated Financial Statements for further details.

**Reportable Segment Revenues and Profits**

Since the second quarter of 2018 and consistent with how the Company's CEO currently: (i) assesses operating performance on a regular basis, (ii) makes resource allocation decisions and (iii) designates responsibilities of his direct reports; the Company operates in the following reportable segments: (i) Bausch + Lomb/International segment, (ii) Salix segment, (iii) Ortho Dermatologics segment and (iv) Diversified Products segment.

The following is a brief description of our segments:

- ***The Bausch + Lomb/International segment*** consists of: (i) sales in the U.S. of pharmaceutical products, OTC products and medical device products, primarily comprised of Bausch + Lomb products, with a focus on the Vision Care, Surgical, Consumer and Ophthalmology Rx products and (ii) with the exception of sales of Solta products, sales in Canada, Europe, Asia, Australia, Latin America, Africa and the Middle East of branded pharmaceutical products, branded generic pharmaceutical products, OTC products, medical device products and Bausch + Lomb products.
- ***The Salix segment*** consists of sales in the U.S. of GI products.
- ***The Ortho Dermatologics segment*** consists of: (i) sales in the U.S. of Ortho Dermatologics (dermatological) products and (ii) global sales of Solta medical aesthetic devices.
- ***The Diversified Products segment*** consists of sales in the U.S. of: (i) pharmaceutical products in the areas of neurology and certain other therapeutic classes, (ii) generic products and (iii) dentistry products.

Effective in the first quarter of 2019, one product historically included in the reported results of the Ortho Dermatologics business unit in the Ortho Dermatologics segment is now included in the reported results of the Generics business unit in the Diversified Products segment and another product historically included in the reported results of the Ortho Dermatologics business unit in the Ortho Dermatologics segment is now included in the reported results of the Dentistry business unit in the Diversified Products segment as management believes the products better align with the new respective business units. These changes in product alignment are not material. Prior period presentations of business unit and segment revenues and profits have been conformed to current segment and business unit reporting structures.

Segment profit is based on operating income after the elimination of intercompany transactions. Certain costs, such as Amortization of intangible assets, Asset impairments, In-process research and development costs, Restructuring and integration costs, Acquisition-related contingent consideration costs and Other income, net, are not included in the measure of segment profit, as management excludes these items in assessing segment financial performance. See Note 20, "SEGMENT INFORMATION" to our unaudited interim Consolidated Financial Statements for a reconciliation of segment profit to Loss before benefit from (provision for) income taxes.

The following table presents segment revenues, segment revenues as a percentage of total revenues, and the year-over-year changes in segment revenues for the three months ended June 30, 2019 and 2018. The following table also presents segment profits, segment profits as a percentage of segment revenues and the year-over-year changes in segment profits for the three months ended June 30, 2019 and 2018.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Change | |
| *(in millions)* | Amount | Pct. | Amount | Pct. | Amount | Pct. |
| **Segment Revenues** | | | | | | |
| Bausch + Lomb/International | $ 1,208 | 56 % | $ 1,209 | 56 % | $ (1) | — % |
| Salix | 509 | 24 % | 441 | 21 % | 68 | 15 % |
| Ortho Dermatologics | 122 | 6 % | 141 | 7 % | (19) | (13)% |
| Diversified Products | 313 | 14 % | 337 | 16 % | (24) | (7)% |
| Total revenues | $ 2,152 | 100 % | $ 2,128 | 100 % | $ 24 | 1 % |
| | | | | | | |
| **Segment Profits / Segment Profit Margins** | | | | | | |
| Bausch + Lomb/International | $ 337 | 28 % | $ 350 | 29 % | $ (13) | (4)% |
| Salix | 332 | 65 % | 292 | 66 % | 40 | 14 % |
| Ortho Dermatologics | 41 | 34 % | 58 | 41 % | (17) | (29)% |
| Diversified Products | 232 | 74 % | 259 | 77 % | (27) | (10)% |
| Total segment profits | $ 942 | 44 % | $ 959 | 45 % | $ (17) | (2)% |

The following table presents organic revenue (non-GAAP) and the year-over-year changes in organic revenue (non-GAAP) for the three months ended June 30, 2019 and 2018 by segment. Organic revenues (non-GAAP) and organic growth (non-GAAP) rates are defined in the previous section titled “Selected Financial Information”.

| | Three Months Ended June 30, 2019 | | | | Three Months Ended June 30, 2018 | | | Change in Organic Revenue | |
|---|---|---|---|---|---|---|---|---|---|
| *(in millions)* | Revenue as Reported | Changes in Exchange Rates | Acquisition | Organic Revenue (Non-GAAP) | Revenue as Reported | Divestitures and Discontinuations | Organic Revenue (Non-GAAP) | Amount | Pct. |
| Bausch + Lomb/International | $ 1,208 | $ 37 | $ — | $ 1,245 | $ 1,209 | $ (12) | $ 1,197 | $ 48 | 4 % |
| Salix | 509 | — | (17) | 492 | 441 | (3) | 438 | 54 | 12 % |
| Ortho Dermatologics | 122 | 1 | — | 123 | 141 | — | 141 | (18) | (13)% |
| Diversified Products | 313 | — | — | 313 | 337 | (1) | 336 | (23) | (7)% |
| Total | $ 2,152 | $ 38 | $ (17) | $ 2,173 | $ 2,128 | $ (16) | $ 2,112 | $ 61 | 3 % |

*Bausch + Lomb/International Segment:*

*Bausch + Lomb/International Segment Revenue*

The Bausch + Lomb/International segment has a diversified product line with no single product group representing 10% or more of its product sales. The Bausch + Lomb/International segment revenue was $1,208 million and $1,209 million for the three months ended June 30, 2019 and 2018, respectively, a decrease of $1 million, or less than 1%. The decrease was primarily attributable to: (i) the unfavorable effect of foreign currencies of $37 million primarily attributable to our revenues in Europe and Asia and (ii) the impact of divestitures and discontinuations of $12 million, primarily related to the divestiture and discontinuance of several products within our International Rx business. These decreases were mostly offset by: (i) an increase in volume of $27 million, primarily in our Global Consumer and Global Vision Care businesses, (ii) an increase in average realized pricing of $13 million primarily driven by our Global Ophtho Rx and International Rx businesses and (iii) an increase in other revenues of $8 million. The increase in volume in our Global Consumer business is primarily attributable to increased demand of Preservision®, Lumify® and Ocuvite®. The increase in volume in our Global Vision Care business is primarily attributable to our Biotrue® ONEday and Ultra® product lines in the U.S. and internationally. The increase in average realized pricing in our Global Ophtho Rx business is primarily attributable to Lotemax® and Prolensa® in the U.S.

*Bausch + Lomb/International Segment Profit*

The Bausch + Lomb/International segment profit for three months ended June 30, 2019 and 2018 was $337 million and $350 million, respectively, a decrease of $13 million, or 4%. The decrease was primarily driven by: (i) higher advertising and promotion expenses primarily due to Lumify®, (ii) higher R&D expenses and (iii) the unfavorable effect of foreign currencies. The decrease was partially offset by: (i) the increases in average realized pricing, volumes and other revenues as previously discussed and (ii) better inventory management.

*Salix Segment:*

*Salix Segment Revenue*

The Salix segment includes the Xifaxan® product line, which accounted for 70% and 67% of the Salix segment product sales and 17% and 14% of the Company's product sales for the three months ended June 30, 2019 and 2018, respectively. No other single product group represents 10% or more of the Salix segment product sales. The Salix segment revenue for the three months ended June 30, 2019 and 2018 was $509 million and $441 million, respectively, an increase of $68 million, or 15%. The increase includes: (i) an increase in average realized pricing of $47 million primarily attributable to higher gross selling prices for Xifaxan® and lower sales deductions for Xifaxan® and Glumetza® SLX, (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, of $17 million and (iii) an increase in volume of $7 million primarily attributable to increased demand for Xifaxan® and Glumetza® SLX, partially offset by the decrease in demand for Uceris® due to loss of exclusivity. These increases in revenue were partially offset by the impact of divestitures and discontinuations of $3 million. Although average realized pricing and volumes associated with Glumetza® SLX increased for the three months ended June 30, 2019 when compared to the three months ended June 30, 2018, we are expecting near term pricing pressures for this product as a result of its loss of exclusivity.

*Salix Segment Profit*

The Salix segment profit for the three months ended June 30, 2019 and 2018 was $332 million and $292 million, respectively, an increase of $40 million, or 14%. The increase was primarily driven by a net increase in contribution as a result of: (i) the increases in average realized pricing and net volume, as previously discussed and (ii) gross profit from the sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy. The increase in segment profit was partially offset by higher selling, advertising and promotion expenses primarily related to our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy and increased advertising for Xifaxan®.

*Ortho Dermatologics Segment:*

*Ortho Dermatologics Segment Revenue*

The Ortho Dermatologics segment revenue for the three months ended June 30, 2019 and 2018 was $122 million and $141 million, respectively a decrease of $19 million, or 13%. The decrease includes: (i) a decrease in volume of $16 million, (ii) a decrease in other revenues of $6 million and (iii) the unfavorable effect of foreign currencies of $1 million. The decrease in volume is primarily due to: (i) the impact of generic competition as certain products lost exclusivity, including Elidel®, Solodyn® and Zovirax® and (ii) decreased demand for Onexton® and Jublia®, partially offset by the increased demand of Thermage FLX®, Siliq® and Clindagel®. These decreases were partially offset by an increase in average realized pricing of $4 million as a result of lower sales deductions primarily attributable to Jublia®.

*Ortho Dermatologics Segment Profit*

The Ortho Dermatologics segment profit for the three months ended June 30, 2019 and 2018 was $41 million and $58 million, respectively, a decrease of $17 million, or 29%. The decrease was primarily driven by a decrease in contribution as a result of the decrease in revenue, as previously discussed, partially offset by lower compensation costs.

*Diversified Products Segment:*

*Diversified Products Segment Revenue*

The following table displays the Diversified Products segment revenue by product and product revenues as a percentage of segment revenue for the three months ended June 30, 2019 and 2018.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Change | |
| *(in millions)* | Amount | Pct. | Amount | Pct. | Amount | Pct. |
| Wellbutrin® Franchise | $ 61 | 19% | $ 67 | 20% | $ (6) | (9)% |
| Arestin® | 21 | 7% | 26 | 8% | (5) | (19)% |
| Aplenzin® | 21 | 7% | 13 | 4% | 8 | 62 % |
| Elidel® AG | 16 | 5% | — | —% | 16 | 100 % |
| Uceris® AG | 15 | 5% | — | —% | 15 | 100 % |
| Migranal® Franchise | 13 | 4% | 15 | 4% | (2) | (13)% |
| Cuprimine® | 12 | 4% | 18 | 5% | (6) | (33)% |
| Xenazine® Franchise | 11 | 4% | 15 | 4% | (4) | (27)% |
| Ativan® | 10 | 3% | 13 | 4% | (3) | (23)% |
| Tobramycin/Dexamethasone | 9 | 3% | 8 | 2% | 1 | 13 % |
| Other product revenues | 121 | 38% | 159 | 48% | (38) | (24)% |
| Other revenues | 3 | 1% | 3 | 1% | — | — % |
| Total Diversified Products revenues | $ 313 | 100% | $ 337 | 100% | $ (24) | (7)% |

The Diversified Products segment revenue for the three months ended June 30, 2019 and 2018 was $313 million and $337 million, respectively, a decrease of $24 million, or 7%. The decrease was primarily driven by: (i) a decrease in average realized pricing of $17 million, (ii) a decrease in volume of $6 million and (iii) the impact of divestitures and discontinuations of $1 million. The decrease in average realized pricing was primarily driven by higher sales deductions in our Generics business, primarily attributable to Syprine® AG, Glumetza® AG, Targretin® AG and Diastat® AG. The decrease in volume was primarily attributable to our Neurology and Other business, as certain products lost exclusivity, including Isuprel®, Mephyton®, Cuprimine® and Xenazine®. These decreases in volume were partially offset by increased volumes in our Generics business, primarily due to the launches of Elidel® AG (December 2018) and Uceris® AG (July 2018).

*Diversified Products Segment Profit*

The Diversified Products segment profit for three months ended June 30, 2019 and 2018 was $232 million and $259 million, respectively, a decrease of $27 million, or 10% and was primarily driven by: (i) the decrease in volume, as previously discussed, (ii) higher compensation costs and (iii) higher professional fees, partially offset by: (i) better inventory management and (ii) lower third-party royalty costs.

***Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018***

**Revenues**

Our revenue was $4,168 million and $4,123 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $45 million, or 1%. The increase was primarily driven by: (i) higher gross selling prices of $101 million, (ii) higher volumes of $48 million, (iii) the incremental product sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy of $23 million and (iv) lower sales deductions of $4 million. The increase in net pricing was primarily in our Salix segment. The net increase in volumes was driven by our Bausch + Lomb/ International segment. The increases in our revenues were partially offset by: (i) the unfavorable effect of foreign currencies, primarily in Europe and Asia, of $97 million and (ii) the impact of divestitures and discontinuations of $34 million.

Our segment revenues and segment profits for the six months ended June 30, 2019 and 2018 are discussed in further detail in the subsequent section titled "Reportable Segment Revenues and Profits".

***Cash Discounts and Allowances, Chargebacks and Distribution Fees***

Provisions recorded to reduce gross product sales to net product sales and revenues for the six months ended June 30, 2019 and 2018 were as follows:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| *(in millions)* | Amount | Pct. | Amount | Pct. |
| Gross product sales | $ 6,723 | 100.0% | $ 7,027 | 100.0% |
| Provisions to reduce gross product sales to net product sales | | | | |
| Discounts and allowances | 406 | 6.0% | 406 | 5.8% |
| Returns | 78 | 1.2% | 163 | 2.3% |
| Rebates | 1,100 | 16.4% | 1,330 | 18.9% |
| Chargebacks | 930 | 13.8% | 947 | 13.5% |
| Distribution fees | 98 | 1.5% | 116 | 1.7% |
| Total provisions | 2,612 | 38.9% | 2,962 | 42.2% |
| Net product sales | 4,111 | 61.1% | 4,065 | 57.8% |
| Other revenues | 57 | | 58 | |
| Revenues | $ 4,168 | | $ 4,123 | |

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 38.9% and 42.2% for the six months ended June 30, 2019 and 2018, respectively. Changes in cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were primarily driven by:

- discounts and allowances as a percentage of gross product sales was higher primarily due to the sales mix of our generics business. The release of certain generics, such as Elidel® AG and Uceris® AG, and increases in gross product sales of higher discounted products, such as Glumetza® AG, drove the increase despite the year-over-year decrease in the discount rate for Glumetza® AG. These increases were partially offset by the impact of lower sales of other higher discounted generics, such as Xenazine® AG and Targretin® AG;

- returns as a percentage of gross product sales was lower primarily due to the impact of: (i) lower return rates for products, such as Glumetza® SLX, Mephyton® and Xifaxan® and (ii) lower gross product sales of Isuprel® and Mephyton® as a result of generic competition;

- rebates as a percentage of gross product sales were lower primarily due to decreases in volumes for certain products which carry higher rebate rates such as Solodyn®, Elidel®, Jublia® and Retin-A Micro® 0.06%. The decreases in year-over-year volumes were due in part to generic competition. The lower rebates as a percentage of gross product sales were partially offset by the impact of: (i) increased gross product sales of products that carry higher contractual rebates and co-pay assistance programs, including the impact of incremental rebates from contractual price increase limitations for promoted products, such as Xifaxan® and Apriso® and (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy;

- chargebacks as a percentage of gross product sales were higher primarily due to the impact of: (i) higher gross product sales of Glumetza® AG, Xifaxan®, Glumetza® SLX and Syprine® AG and (ii) the release of certain generics, such as Elidel® AG and Uceris® AG. The higher chargebacks as a percentage of gross product sales were partially offset by the impact of lower gross product sales of certain branded products, such as Isuprel® and Nifediac, and certain generic products, such as Xenazine® AG and Zegerid® AG; and

- distribution service fees as a percentage of gross product sales were lower primarily due to the impact of lower gross product sales of Solodyn®, Targretin®, Isuprel® and Elidel®. The lower distribution service fees as a percentage of gross product sales were partially offset by the impact of: (i) higher sales of Xifaxan® and Apriso® and other branded products and (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy. Price appreciation credits, which are offset against the distribution service fees we pay wholesalers, were $0 and $15 million during the six months ended June 30, 2019 and 2018, respectively.

**Expenses**

***Cost of Goods Sold (excluding amortization and impairments of intangible assets)***

Cost of goods sold was $1,104 million and $1,144 million for the six months ended June 30, 2019 and 2018, respectively, a decrease of $40 million, or 3%. The decrease was primarily driven by: (i) the favorable impact of foreign currencies, (ii) the impact of divestitures and discontinuations, (iii) better inventory management and (iv) lower third-party royalty costs, partially offset by: (i) the net increase in volumes and (ii) the incremental costs of sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy.

Cost of goods sold as a percentage of product sales revenue was 26.9% and 28.1% for the six months ended June 30, 2019 and 2018, respectively, a decrease of 1.2 percentage point. Costs of goods sold as a percentage of revenue was favorably impacted as a result of: (i) higher gross selling prices and lower sales deductions, (ii) better inventory management and (iii) the impact of divestitures and discontinuations, which generally had lower gross margins than the balance of our product portfolio. These factors were partially offset by the amortization of acquisition accounting adjustments related to the inventories we acquired as part of the acquisition of certain assets of Synergy.

***Selling, General and Administrative Expenses***

SG&A expenses were $1,238 million and $1,233 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $5 million, or less than 1%. The increase was primarily driven by: (i) higher selling, advertising and promotion expenses, (ii) costs in 2019 attributable to our IT infrastructure improvement projects and (iii) the impact of the acquisition of certain assets of Synergy. The increase was partially offset by: (i) the favorable impact of foreign currencies, (ii) lower compensation expense and (iii) lower costs related to professional services;

***Research and Development***

R&D expenses were $234 million and $186 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $48 million, or 26%. R&D expenses as a percentage of Product revenue were approximately 6% and 5% for the six months ended June 30, 2019 and 2018, respectively, an increase of 1 percentage point.

***Amortization of Intangible Assets***

Amortization of intangible assets was $977 million and $1,484 million for the six months ended June 30, 2019 and 2018, respectively, a decrease of $507 million, or 34%. The decrease was primarily due to: (i) the impact of the change in the estimated useful life of the Xifaxan® related intangible assets made in September 2018 to reflect management's changes in assumptions and (ii) lower amortization as a result of impairments to intangible assets in prior periods. Management continually assesses the useful lives related to the Company's long-lived assets to reflect the most current assumptions.

***Goodwill Impairments***

Goodwill is not amortized but is tested for impairment at least annually at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants. The Company estimates the fair values of all reporting units using a discounted cash flow model which utilizes Level 3 unobservable inputs.

Goodwill impairments were $0 and $2,213 million for the six months ended June 30, 2019 and 2018, respectively.

*March 31, 2018*

In January 2017, the Financial Accounting Standards Board issued guidance which simplifies the subsequent measurement of goodwill by eliminating “Step 2” from the goodwill impairment test. Instead, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value. The Company elected to adopt this guidance effective January 1, 2018.

Upon adopting the new guidance, the Company tested goodwill for impairment and determined that the carrying value of the Salix reporting unit exceeded its fair value. As a result of the adoption of new accounting guidance, the Company recognized a goodwill impairment of $1,970 million associated with the Salix reporting unit.

As of October 1, 2017, the date of the 2017 annual goodwill impairment test, the fair value of the Ortho Dermatologics reporting unit exceeded its carrying value. However, at January 1, 2018, unforeseen changes in the business dynamics of the Ortho Dermatologics reporting unit, such as: (i) changes in the dermatology sector, (ii) increased pricing pressures from third-

party payors, (iii) additional risks to the exclusivity of certain products and (iv) an expected longer launch cycle for a new product, were factors that negatively impacted the reporting unit's operating results beyond management's expectations as of October 1, 2017, when the Company performed its 2017 annual goodwill impairment test. In response to these adverse business indicators, as of January 1, 2018, the Company reduced its near and long term financial projections for the Ortho Dermatologics reporting unit. As a result of the reductions in the near and long term financial projections, the carrying value of the Ortho Dermatologics reporting unit exceeded its fair value at January 1, 2018 and the Company recognized a goodwill impairment of $243 million.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Consolidated Financial Statements for additional details regarding our goodwill impairment testing.

***Asset Impairments***

Asset impairments were $16 million and $345 million for the six months ended June 30, 2019 and 2018, respectively, a decrease of $329 million. Asset impairments for the six months ended June 30, 2019 include impairments of: (i) $13 million reflecting decreases in forecasted sales of a certain product line due to generic competition and (ii) $3 million, in aggregate, related to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core businesses. Asset impairments for the six months ended June 30, 2018 include impairments of: (i) $323 million reflecting decreases in forecasted sales for the Uceris® Tablet product and other product lines due to generic competition, (ii) $17 million, in aggregate, related to certain product/patent assets associated with the discontinuance of specific product lines not aligned with the focus of the Company's core businesses and revisions to forecasted sales and (iii) $5 million related to assets being classified as held for sale.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Consolidated Financial Statements regarding further details related to our intangible assets.

***Restructuring and Integration Costs***

Restructuring and integration costs were $24 million and $13 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $11 million. We have substantially completed the integration of the businesses acquired prior to 2016. The Company continues to evaluate opportunities to streamline its operations and identify additional cost savings globally. Although a specific plan does not exist at this time, the Company may identify and take additional exit and cost-rationalization restructuring actions in the future, the costs of which could be material.

See Note 5, "RESTRUCTURING AND INTEGRATION COSTS" to our unaudited interim Consolidated Financial Statements for further details regarding these actions.

***Acquisition-Related Contingent Consideration***

Acquisition-related contingent consideration was a net gain of $1 million for the six months ended June 30, 2019 and included net fair value adjustments of $12 million, partially offset by accretion for the time value of money of $11 million. Acquisition-related contingent consideration was a net gain of $4 million for the six months ended June 30, 2018, and included net fair value adjustments of $16 million, partially offset by accretion for the time value of money of $12 million.

See Note 6, "FAIR VALUE MEASUREMENTS" to our unaudited interim Consolidated Financial Statements for further details.

***Other Expense, Net***

Other expense, net for the six months ended June 30, 2019 and 2018 consists of the following:

| | Six Months Ended June 30, | |
|---|---|---|
| *(in millions)* | **2019** | **2018** |
| Net gain on sale of assets | $ (9) | $ — |
| Acquisition-related costs | 8 | 1 |
| Litigation and other matters | 3 | 10 |
| Other, net | 3 | 1 |
| | $ 5 | $ 12 |

Included in Other, net in the table above for the six months ended June 30, 2019, is $8 million of in-process research and development costs associated with the upfront payment to enter into an exclusive licensing agreement.

**Non-Operating Income and Expense**

***Interest Expense***

Interest expense was $815 million and $851 million and included non-cash amortization and write-offs of debt discounts and deferred financing costs of $32 million and $44 million for the six months ended June 30, 2019 and 2018, respectively. Interest expense decreased $36 million, or 4%, primarily due to lower principal amounts of outstanding long-term debt. The weighted average stated rates of interest as of June 30, 2019 and 2018 were 6.44% and 6.28%, respectively.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Consolidated Financial Statements for further details.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt represents the differences between the amounts paid to settle extinguished debts and the carrying value of the related extinguished debt. Loss on extinguishment of debt was $40 million and $75 million for the six months ended June 30, 2019 and 2018, respectively, associated with a series of transactions which allowed us to refinance portions of our debt arrangements.

***Foreign Exchange and Other***

Foreign exchange and other was a net gain of $3 million and $18 million for the six months ended June 30, 2019 and 2018, respectively, an unfavorable net change of $15 million. Foreign exchange gains/losses include translation gains/losses on intercompany loans, primarily on euro-denominated intercompany loans.

**Income Taxes**

Benefit from income taxes was $83 million for the six months ended June 30, 2019 compared to a Provision for income taxes of $23 million for the six months ended June 30, 2018, an increase in the Benefit from income taxes of $106 million.

Our effective income tax rate for the six months ended June 30, 2019 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of certain tax matters, primarily related to: (a) the net tax benefit related to uncertain tax positions and (b) the adjustments for book to income tax return provisions.

Our effective income tax rate for the six months ended June 30, 2018 differs from the statutory Canadian income tax rate primarily due to: (i) the recording of valuation allowance on entities for which no tax benefit of losses is expected, (ii) the tax benefit generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of: (a) the tax consequences of internal restructuring efforts, (b) the net tax benefit related to the impairment of intangibles assets previously discussed and (c) the adjustments for book to income tax return provisions.

See Note 17, "INCOME TAXES" to our unaudited interim Consolidated Financial Statements for further details.

**Reportable Segment Revenues and Profits**

The following table presents segment revenues, segment revenues as a percentage of total revenues, and the year-over-year changes in segment revenues for the six months ended June 30, 2019 and 2018. The following table also presents segment profits, segment profits as a percentage of segment revenues and the year-over-year changes in segment profits for the six months ended June 30, 2019 and 2018.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Change | |
| *(in millions)* | Amount | Pct. | Amount | Pct. | Amount | Pct. |
| **Segment Revenues** | | | | | | |
| Bausch + Lomb/International | $ 2,326 | 56 % | $ 2,312 | 56 % | $ 14 | < 1% |
| Salix | 954 | 23 % | 863 | 21 % | 91 | 11 % |
| Ortho Dermatologics | 260 | 6 % | 281 | 7 % | (21) | (7)% |
| Diversified Products | 628 | 15 % | 667 | 16 % | (39) | (6)% |
| Total revenues | $ 4,168 | 100 % | $ 4,123 | 100 % | $ 45 | 1 % |
| | | | | | | |
| **Segment Profits / Segment Profit Margins** | | | | | | |
| Bausch + Lomb/International | $ 656 | 28 % | $ 647 | 28 % | $ 9 | 1 % |
| Salix | 620 | 65 % | 564 | 65 % | 56 | 10 % |
| Ortho Dermatologics | 98 | 38 % | 102 | 36 % | (4) | (4)% |
| Diversified Products | 468 | 75 % | 499 | 75 % | (31) | (6)% |
| Total segment profits | $ 1,842 | 44 % | $ 1,812 | 44 % | $ 30 | 2 % |

The following table presents organic revenue (non-GAAP) and the year-over-year changes in organic revenue (non-GAAP) for the six months ended June 30, 2019 and 2018 by segment. Organic revenues (non-GAAP) and organic growth (non-GAAP) rates are defined in the previous section titled “Selected Financial Information”.

| | Six Months Ended June 30, 2019 | | | | Six Months Ended June 30, 2018 | | | Change in Organic Revenue | |
|---|---|---|---|---|---|---|---|---|---|
| *(in millions)* | Revenue as Reported | Changes in Exchange Rates | Acquisition | Organic Revenue (Non-GAAP) | Revenue as Reported | Divestitures and Discontinuations | Organic Revenue (Non-GAAP) | Amount | Pct. |
| Bausch + Lomb/International | $ 2,326 | $ 95 | $ — | $ 2,421 | $ 2,312 | $ (26) | $ 2,286 | $ 135 | 6 % |
| Salix | 954 | — | (23) | 931 | 863 | (6) | 857 | 74 | 9 % |
| Ortho Dermatologics | 260 | 2 | — | 262 | 281 | — | 281 | (19) | (7)% |
| Diversified Products | 628 | — | — | 628 | 667 | (2) | 665 | (37) | (6)% |
| Total | $ 4,168 | $ 97 | $ (23) | $ 4,242 | $ 4,123 | $ (34) | $ 4,089 | $ 153 | 4 % |

*Bausch + Lomb/International Segment:*

*Bausch + Lomb/International Segment Revenue*

The Bausch + Lomb/International segment revenue was $2,326 million and $2,312 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $14 million, or less than 1%. The increase was primarily attributable to: (i) an increase in volume of $107 million, primarily in our Global Vision Care and Global Consumer businesses, (ii) an increase in average realized pricing of $20 million primarily driven by our Global Ophtho Rx and International Rx businesses and (iii) an increase in other revenues of $8 million. The increase in volume in our Global Vision Care business is primarily attributable to our Biotrue® ONEday and Ultra® product lines in the U.S. and internationally. The increase in volume in our Global Consumer business is primarily attributable to the launch of Lumify® (May 2018) and sales of Preservision® and Ocuvite®. The increase in average realized pricing in our Global Ophtho Rx business is primarily attributable to Lotemax®, Vyzulta® and Prolensa®. The increase was partially offset by: (i) the unfavorable effect of foreign currencies of $95 million primarily attributable to our revenues in Europe, Asia and Latin America and (ii) the impact of divestitures and discontinuations of $26 million, primarily related to the divestiture and discontinuance of several products within our International Rx business.

*Bausch + Lomb/International Segment Profit*

The Bausch + Lomb/International segment profit for the six months ended June 30, 2019 and 2018 was $656 million and $647 million, respectively, an increase of $9 million, or 1%. The increase was primarily driven by an increase in contribution as a result of: (i) the increase in average realized pricing as previously discussed and (ii) better inventory management. The increase was partially offset by: (i) higher advertising and promotion expenses primarily due to the launch of Lumify®, (ii) higher R&D expenses and (iii) the unfavorable effect of foreign currencies.

*Salix Segment:*

*Salix Segment Revenue*

The Salix segment includes the Xifaxan® product line, which accounted for 69% and 66% of the Salix segment product sales and 16% and 14% of the Company's product sales for the six months ended June 30, 2019 and 2018, respectively. No other single product group represents 10% or more of the Salix segment product sales. The Salix segment revenue for the six months ended June 30, 2019 and 2018 was $954 million and $863 million, respectively, an increase of $91 million, or 11%. The increase includes: (i) an increase in average realized pricing of $72 million primarily attributable to higher gross selling prices and lower sales deductions for Xifaxan®, (ii) sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy, of $23 million and (iii) an increase in volume of $2 million primarily attributable to increased demand for Xifaxan® and Glumetza® SLX, partially offset by the decrease in demand for Uceris® due to loss of exclusivity. The increase in revenue was partially offset by the impact of divestitures and discontinuations of $6 million.

*Salix Segment Profit*

The Salix segment profit for the six months ended June 30, 2019 and 2018 was $620 million and $564 million, respectively, an increase of $56 million, or 10%. The increase was primarily driven by: (i) a net increase in contribution as a result of the increases in average realized pricing, as previously discussed and (ii) gross profit from the sales of our Trulance® product, which we added to our portfolio in March 2019 as part of the acquisition of certain assets of Synergy. The increase in segment profit was partially offset by higher selling, advertising and promotion expenses.

*Ortho Dermatologics Segment:*

*Ortho Dermatologics Segment Revenue*

The Ortho Dermatologics segment revenue for the six months ended June 30, 2019 and 2018 was $260 million and $281 million, respectively, a decrease of $21 million, or 7%. The decrease includes: (i) a decrease in volume of $36 million, (ii) a decrease in other revenues of $7 million and (iii) the unfavorable effect of foreign currencies of $2 million. The decrease in volume is primarily due to: (i) the impact of generic competition as certain products lost exclusivity, including Elidel®, Solodyn® and Zovirax® and (ii) decreased demand for Onexton®, Targretin®, Jublia® and Retin-A Micro® 0.08%, partially offset by the increased demand of Thermage FLX® and Siliq®. The decrease was partially offset by an increase in average realized pricing of $24 million as a result of lower sales deductions primarily attributable to Jublia®, Retin-A Micro® 0.06%, Onexton® and Retin-A Micro® 0.08%.

*Ortho Dermatologics Segment Profit*

The Ortho Dermatologics segment profit for the six months ended June 30, 2019 and 2018 was $98 million and $102 million, respectively, a decrease of $4 million, or 4%. The decrease was primarily driven by a decrease in contribution as a result of the decrease in revenue, as previously discussed, partially offset by decreases in: (i) selling expenses and (ii) professional fees.

*Diversified Products Segment:*

*Diversified Products Segment Revenue*

The following table displays the Diversified Products segment revenue by product and product revenues as a percentage of segment revenue for the six months ended June 30, 2019 and 2018.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | Change | |
| *(in millions)* | Amount | Pct. | Amount | Pct. | Amount | Pct. |
| Wellbutrin® Franchise | $ 119 | 19% | $ 129 | 19% | $ (10) | (8)% |
| Arestin® | 42 | 7% | 50 | 7% | (8) | (16)% |
| Aplenzin® | 37 | 6% | 25 | 4% | 12 | 48 % |
| Cuprimine® | 37 | 6% | 34 | 5% | 3 | 9 % |
| Ativan® | 25 | 4% | 26 | 4% | (1) | (4)% |
| Migranal® Franchise | 25 | 4% | 26 | 4% | (1) | (4)% |
| Elidel® AG | 21 | 3% | — | —% | 21 | 100 % |
| Uceris® AG | 20 | 3% | — | —% | 20 | 100 % |
| Xenazine® | 18 | 3% | 29 | 4% | (11) | (38)% |
| Tobramycin/Dexamethasone | 16 | 3% | 13 | 2% | 3 | 23 % |
| Other product revenues | 263 | 41% | 328 | 50% | (65) | (20)% |
| Other revenues | 5 | 1% | 7 | 1% | (2) | (29)% |
| Total Diversified Products revenues | $ 628 | 100% | $ 667 | 100% | $ (39) | (6)% |

The Diversified Products segment revenue for the six months ended June 30, 2019 and 2018 was $628 million and $667 million, respectively, a decrease of $39 million, or 6%. The decrease was primarily driven by: (i) a decrease in volume of $25 million, (ii) a decrease in average realized pricing of $11 million, (iii) the impact of divestitures and discontinuations of $2 million and (iv) a decrease in other revenues of $1 million. The decrease in volume was primarily attributable to: (i) the impact of generic competition as certain products lost exclusivity, including Isuprel®, Mephyton®, Xenazine® and Syprine® and (ii) decreased demand for Wellbutrin®. These decreases in volume were partially offset by increased volumes in our Generics business, primarily due to the launches of Elidel® AG (December 2018) and Uceris® AG (July 2018). The decrease in average realized pricing related to our Generics business, is primarily attributable to the impact of generic competition for Glumetza® AG, Syprine® AG, Targretin® AG, Cardizem® AG and Mephyton® AG, partially offset by an increase in pricing in our Neurology and Other business.

*Diversified Products Segment Profit*

The Diversified Products segment profit for the six months ended June 30, 2019 and 2018 was $468 million and $499 million, respectively, a decrease of $31 million, or 6% and was primarily driven by: (i) the decrease in volume, as previously discussed and (ii) higher selling expenses, partially offset by: (i) lower third-party royalty costs and (ii) better inventory management.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

| | Six Months Ended June 30, | | |
|---|---|---|---|
| *(in millions)* | **2019** | **2018** | **Change** |
| Net loss | $ (218) | $ (3,451) | $ 3,233 |
| Adjustments to reconcile net loss to net cash provided by operating activities | 1,093 | 4,048 | (2,955) |
| Cash provided by operating activities before changes in operating assets and liabilities | 875 | 597 | 278 |
| Changes in operating assets and liabilities | (123) | 63 | (186) |
| Net cash provided by operating activities | 752 | 660 | 92 |
| Net cash used in investing activities | (261) | (139) | (122) |
| Net cash used in financing activities | (338) | (465) | 127 |
| Effect of exchange rate on cash and cash equivalents | 4 | (15) | 19 |
| Net increase in cash, cash equivalents and restricted cash | 157 | 41 | 116 |
| Cash, cash equivalents and restricted cash, beginning of period | 723 | 797 | (74) |
| Cash, cash equivalents and restricted cash, end of period | $ 880 | $ 838 | $ 42 |

#### *Operating Activities*

Net cash provided by operating activities was $752 million and $660 million for the six months ended June 30, 2019 and 2018, respectively, an increase of $92 million. The increase was attributable to the increase in Cash provided by operating activities before changes in operating assets and liabilities partially offset by the decrease in cash from Changes in operating assets and liabilities.

Cash provided by operating activities before changes in operating assets and liabilities for the six months ended June 30, 2019 and 2018 was $875 million and $597 million, respectively, an increase of $278 million. The increase is primarily attributable to: (i) Payments of accrued legal settlements during 2018 not recurring in 2019 and (ii) higher revenues, improved gross margins and cash expense reductions in 2019 as compared to 2018 as previously discussed. During the six months ended June 30, 2018, Payments of accrued legal settlements were $220 million and were primarily related to the settlements of the Solodyn Antitrust Class Actions, the Allergan Shareholder Class Actions and other matters.

Changes in operating assets and liabilities resulted in a net decrease in cash of $123 million for the six months ended June 30, 2019, as compared to the net increase in cash of $63 million for the six months ended June 30, 2018, a decrease of $186 million. During the six months ended June 30, 2019, Changes in operating assets and liabilities was negatively impacted by: (i) the build-up of inventories of $121 million and (ii) the timing of other payments in the ordinary course of business, partially offset by the collection of trade receivables of $56 million. For the six months ended June 30, 2018, Changes in operating assets and liabilities was positively impacted by the collection of trade receivables of $128 million partially offset by the timing of other payments in the ordinary course of business.

#### *Investing Activities*

Net cash used in investing activities was $261 million for the six months ended June 30, 2019 and was driven by: (i) Acquisition of businesses, net of cash acquired of $180 million, related to the acquisition of certain assets of Synergy, and (ii) Purchases of property, plant and equipment of $109 million. Net cash used in investing activities was partially offset by Proceeds from sale of assets and businesses, net of costs to sell of $33 million, primarily related to the receipt of a milestone payment associated with a prior year divestiture.

Net cash used in investing activities was $139 million for the six months ended June 30, 2018 and was driven by: (i) Purchases of property, plant and equipment of $63 million and (ii) Payments for intangible and other assets previously acquired of $75 million.

#### *Financing Activities*

Net cash used in financing activities was $338 million for the six months ended June 30, 2019 and was primarily driven by the net reduction in our debt portfolio. Repayments of debt for the six months ended June 30, 2019 were $3,503 million and consisted of: (i) repayments of principal amounts due under our Senior Notes of $3,000 million, (ii) repayments of term loans under our Senior Secured Credit Facilities of $328 million and (iii) repayments of our revolving credit facility of $175 million. Net proceeds from the issuances of long-term debt for the six months ended June 30, 2019 was $3,243

million and included the net proceeds of: (i) $1,019 million from the issuance of $1,000 million in principal amount of January 2027 Unsecured Notes, (ii) $741 million from the issuance of $750 million in principal amount of January 2028 Unsecured Notes, (iii) $741 million from the issuance of $750 million in principal amount of May 2029 Unsecured Notes, (iv) $493 million from the issuance of $500 million in principal amount of August 2027 Secured Notes and (v) $250 million of borrowings under our revolving credit facilities. Net proceeds from the issuances of long-term debt is net of $1 million in payments we made in 2019 for issuance costs associated with long-term debt issued in previous years. Payments of financing costs associated with the refinancing of certain debt was $26 million.

Net cash used in financing activities was $465 million for the six months ended June 30, 2018 and was primarily driven by the net reduction in our debt portfolio. Repayments of debt for the six months ended June 30, 2018 were $7,836 million and consisted of: (i) repayments of term loans under our Senior Secured Credit Facilities of $3,521 million, (ii) repayments of principal amounts due under our Senior Notes of $3,640 million, (iii) refinancing $500 million of outstanding amounts under our 2020 Revolving Credit Facility with our 2023 Revolving Credit Facility and (iv) repayments of our revolving credit facilities of $175 million. Net proceeds from the issuances of long-term debt for the six months ended June 30, 2018 was $7,474 million and included: (i) the net proceeds of: (a) $4,509 million from the issuance of $4,565 million in principal amount of June 2025 Term Loan B Facility, (b) $1,481 million from the issuance of $1,500 million in principal amount of 9.25% Senior Unsecured Notes due April 2026 and (c) $740 million from the issuance of $750 million in principal amount of January 2027 Unsecured Notes, (ii) refinancing $500 million of outstanding amounts under our revolving credit facility set to expire in April 2020 with our 2023 Revolving Credit Facility and (iii) $250 million of borrowings under our revolving credit facilities. Net proceeds from the issuances of long-term debt is net of $6 million in payments we made in 2018 for issuance costs associated with certain senior unsecured notes issued during the second half of 2017. Payments of financing costs associated with the refinancing of certain debt was $59 million.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Consolidated Financial Statements for additional information regarding the financing activities described above.

**Liquidity and Debt**

***Future Sources of Liquidity***

Our primary sources of liquidity are our cash and cash equivalents, cash collected from customers, funds as available from our revolving credit facility, issuances of long-term debt and issuances of equity and equity-linked securities. We believe these sources will be sufficient to meet our current liquidity needs for the next twelve months.

The Company regularly evaluates market conditions, its liquidity profile, and various financing alternatives for opportunities to enhance its capital structure. If opportunities are favorable, the Company may refinance or repurchase existing debt or issue equity or equity-linked securities. We believe our existing cash and cash generated from operations will be sufficient to service our debt obligations in the years 2019 and 2020.

***Long-term Debt***

Long-term debt, net of unamortized premiums, discounts and issuance costs was $24,079 million and $24,305 million as of June 30, 2019 and December 31, 2018, respectively. Aggregate contractual principal amounts due under our debt obligations were $24,369 million and $24,632 million as of June 30, 2019 and December 31, 2018, respectively, a decrease of $263 million during the six months ended June 30, 2019.

*Debt repayments* - During the six months ended June 30, 2019, we repaid approximately $250 million of long-term debt, net of borrowings under our 2023 Revolving Credit Facility. Repayments of long-term debt during the six months ended June 30, 2019 included: (i) $253 million of the June 2025 Term Loan B Facility and (ii) $75 million of the November 2025 Term Loan B Facility. Net borrowings under our 2023 Revolving Credit Facility of $75 million were primarily used for the payment of interest due in April 2019 and other short-term capital needs.

*Refinancing* - In March and May 2019, we accessed the credit markets and completed a series of transactions, whereby we extended approximately $3,000 million in aggregate maturities of certain debt obligations due to mature in December 2021 through May 2023, out to January 2027 through May 2029.

On March 8, 2019, we issued: (i) $1,000 million aggregate principal amount of January 2027 Unsecured Notes and (ii) $500 million aggregate principal amount of August 2027 Secured Notes in a private placement. A portion of the net proceeds of the January 2027 Unsecured Notes and August 2027 Secured Notes were used to: (i) repurchase the remaining $700 million outstanding principal amount of December 2021 Unsecured Notes, (ii) repurchase $584 million of May 2023

Unsecured Notes, (iii) repurchase $216 million of March 2023 Unsecured Notes and (iv) pay all fees and expenses associated with these transactions.

On May 23, 2019, we issued: (i) $750 million aggregate principal amount of January 2028 Unsecured Notes and (ii) $750 million aggregate principal amount of May 2029 Unsecured Notes in a private placement. The net proceeds and cash on hand were used to: (i) repurchase $1,118 million of May 2023 Unsecured Notes, (ii) repurchase $382 million of March 2023 Unsecured Notes and (iii) pay all fees and expenses associated with these transactions.

Maturities and mandatory payments of our debt obligations through December 31, 2024 and thereafter, as of June 30, 2019 compared with those as of December 31, 2018 were as follows:

| *(in millions)* | June 30, 2019 | December 31, 2018 |
|---|---|---|
| 2019 | $ 4 | $ 228 |
| 2020 | 203 | 303 |
| 2021 | 303 | 1,003 |
| 2022 | 1,553 | 1,553 |
| 2023 | 4,109 | 6,348 |
| 2024 | 2,303 | 2,303 |
| 2025 | 10,632 | 10,632 |
| 2026 - 2029 | 5,262 | 2,262 |
| Gross maturities | $ 24,369 | $ 24,632 |

On August 1, 2019, we repaid $100 million of long-term debt, which included: (i) $81 million of the June 2025 Term Loan B Facility and (ii) $19 million of the November 2025 Term Loan B Facility. These transactions are not reflected in the table above and are therefore included as due during 2020.

*Senior Secured Credit Facilities*

On February 13, 2012, the Company and certain of its subsidiaries as guarantors entered into the “Senior Secured Credit Facilities” under the Company’s Third Amended and Restated Credit and Guaranty Agreement, as amended, (the “Third Amended Credit Agreement”) with a syndicate of financial institutions and investors, as lenders. As of January 1, 2018, the Third Amended Credit Agreement, as amended, provided for: (i) $1,500 million of revolving credit facilities, which included a sublimit for the issuance of standby and commercial letters of credit and a sublimit for swing line loans and (ii) a series of tranche B term loans maturing on April 1, 2022 (the "Series F Tranche B Term Loan Facility").

On June 1, 2018, the Company entered into a Restatement Agreement in respect of a Fourth Amended and Restated Credit and Guaranty Agreement (the “Restated Credit Agreement”).

On November 27, 2018, the Company entered into the First Incremental Amendment to the Restated Credit Agreement which provided the November 2025 Term Loan B Facility of $1,500 million.

As of June 30, 2019, the Company had $150 million outstanding borrowings, $169 million of issued and outstanding letters of credit and remaining availability of $906 million under its 2023 Revolving Credit Facility.

*Current Description of Senior Secured Credit Facilities*

Borrowings under the Senior Secured Credit Facilities in U.S. dollars bear interest at a rate per annum equal to, at the Company's option, either: (i) a base rate determined by reference to the highest of: (a) the prime rate (as defined in the Restated Credit Agreement), (b) the federal funds effective rate plus 1/2 of 1.00% and (c) the eurocurrency rate (as defined in the Restated Credit Agreement) for a period of one month plus 1.00% (or if such eurocurrency rate shall not be ascertainable, 1.00%) or (ii) a eurocurrency rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs (provided however, that the eurocurrency rate shall at no time be less than 0.00% per annum), in each case plus an applicable margin.

Borrowings under the 2023 Revolving Credit Facility in euros bear interest at a eurocurrency rate determined by reference to the costs of funds for euro deposits for the interest period relevant to such borrowing (provided however, that the eurocurrency rate shall at no time be less than 0.00% per annum), plus an applicable margin.

Borrowings under the 2023 Revolving Credit Facility in Canadian dollars bear interest at a rate per annum equal to, at the Company's option, either: (i) a prime rate determined by reference to the higher of: (a) the rate of interest last quoted by The Wall Street Journal as the "Canadian Prime Rate" or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Bank of Canada as its prime rate and (b) the 1 month BA rate (as defined below) calculated daily plus 1.00% (provided however, that the prime rate shall at no time be less than 0.00%) or (ii) the bankers' acceptance rate for Canadian dollar deposits in the Toronto interbank market (the "BA rate") for the interest period relevant to such borrowing (provided however, that the BA rate shall at no time be less than 0.00% per annum), in each case plus an applicable margin.

Subject to certain exceptions and customary baskets set forth in the Restated Credit Agreement, the Company is required to make mandatory prepayments of the loans under the Senior Secured Credit Facilities under certain circumstances, including from: (i) 100% of the net cash proceeds of insurance and condemnation proceeds for property or asset losses (subject to reinvestment rights and net proceeds threshold), (ii) 100% of the net cash proceeds from the incurrence of debt (other than permitted debt as described in the Restated Credit Agreement), (iii) 50% of Excess Cash Flow (as defined in the Restated Credit Agreement) subject to decrease based on leverage ratios and subject to a threshold amount and (iv) 100% of net cash proceeds from asset sales (subject to reinvestment rights). These mandatory prepayments may be used to satisfy future amortization.

The applicable interest rate margins for the June 2025 Term Loan B Facility and the November 2025 Term Loan B Facility are 2.00% and 1.75%, respectively, with respect to base rate and prime rate borrowings and 3.00% and 2.75%, respectively, with respect to eurocurrency rate and BA rate borrowings.

As of June 30, 2019, the stated rates of interest on the Company's borrowings under the June 2025 Term Loan B Facility and the November 2025 Term Loan B Facility were 5.41% and 5.16% per annum, respectively.

The amortization rate for both the June 2025 Term Loan B Facility and the November 2025 Term Loan B Facility is 5.00% per annum. The Company may direct that prepayments be applied to such amortization payments in order of maturity. As of June 30, 2019, the aggregate remaining mandatory quarterly amortization payments for the Senior Secured Credit Facilities were $1,530 million through November 1, 2025.

The applicable interest rate margins for borrowings under the 2023 Revolving Credit Facility are 1.50%-2.00% with respect to base rate or prime rate borrowings and 2.50%-3.00% with respect to eurocurrency rate or BA rate borrowings. As of June 30, 2019, the stated rate of interest on the 2023 Revolving Credit Facility was 5.42% per annum. In addition, the Company is required to pay commitment fees of 0.25%-0.50% per annum with respect to the unutilized commitments under the 2023 Revolving Credit Facility, payable quarterly in arrears. The Company also is required to pay: (i) letter of credit fees on the maximum amount available to be drawn under all outstanding letters of credit in an amount equal to the applicable margin on eurocurrency rate borrowings under the 2023 Revolving Credit Facility on a per annum basis, payable quarterly in arrears, (ii) customary fronting fees for the issuance of letters of credit and (iii) agency fees.

The Restated Credit Agreement permits the incurrence of incremental credit facility borrowings up to the greater of $1,000 million and 28.5% of Consolidated Adjusted EBITDA (as defined in the Restated Credit Agreement), subject to customary terms and conditions, as well as the incurrence of additional incremental credit facility borrowings subject to a secured leverage ratio of not greater than 3.50:1.00.

*Senior Secured Notes*

The Senior Secured Notes are guaranteed by each of the Company's subsidiaries that is a guarantor under the Restated Credit Agreement and existing Senior Unsecured Notes (together, the "Note Guarantors"). The Senior Secured Notes and the guarantees related thereto are senior obligations and are secured, subject to permitted liens and certain other exceptions, by the same first priority liens that secure the Company's obligations under the Restated Credit Agreement under the terms of the indentures governing the Senior Secured Notes.

The Senior Secured Notes and the guarantees rank equally in right of repayment with all of the Company's and Note Guarantors' respective existing and future unsubordinated indebtedness and senior to the Company's and Note Guarantors' respective future subordinated indebtedness. The Senior Secured Notes and the guarantees related thereto are effectively *pari passu* with the Company's and the Note Guarantors' respective existing and future indebtedness secured by a first priority lien on the collateral securing the Senior Secured Notes and effectively senior to the Company's and the Note Guarantors' respective existing and future indebtedness that is unsecured, including the existing Senior Unsecured Notes, or that is secured by junior liens, in each case to the extent of the value of the collateral. In addition, the Senior Secured

Notes are structurally subordinated to: (i) all liabilities of any of the Company's subsidiaries that do not guarantee the Senior Secured Notes and (ii) any of the Company's debt that is secured by assets that are not collateral.

Upon the occurrence of a change in control (as defined in the indentures governing the Senior Secured Notes), unless the Company has exercised its right to redeem all of the notes of a series, holders of the Senior Secured Notes may require the Company to repurchase such holder's notes, in whole or in part, at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest.

*5.75% Senior Secured Notes due 2027 - March 2019 Refinancing Transactions*

On March 8, 2019, we issued: (i) $1,000 million aggregate principal amount of January 2027 Unsecured Notes and (ii) $500 million aggregate principal amount of August 2027 Secured Notes, respectively, in a private placement, a portion of the net proceeds of which, and cash on hand, were used to: (i) repurchase $584 million of May 2023 Unsecured Notes, (ii) repurchase $518 million of December 2021 Unsecured Notes, (iii) repurchase $216 million of March 2023 Unsecured Notes and (iv) pay all fees and expenses associated with these transactions (collectively, the "March 2019 Refinancing Transactions"). During April 2019, the Company redeemed $182 million of the December 2021 Unsecured Notes, representing the remaining outstanding principal balance of the December 2021 Unsecured Notes and completing the refinancing of $1,500 million of debt in connection with the March 2019 Refinancing Transactions. Interest on the August 2027 Secured Notes is payable semi-annually in arrears on each February 15 and August 15.

The August 2027 Secured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after August 15, 2022, at the redemption prices set forth in the indenture. We may redeem some or all of the August 2027 Secured Notes prior to August 15, 2022 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. Prior to August 15, 2022, we may redeem up to 40% of the aggregate principal amount of the August 2027 Secured Notes using the proceeds of certain equity offerings at the redemption price set forth in the indenture.

*Senior Unsecured Notes*

The Senior Unsecured Notes issued by the Company are the Company's senior unsecured obligations and are jointly and severally guaranteed on a senior unsecured basis by each of its subsidiaries that is a guarantor under the Senior Secured Credit Facilities. The Senior Unsecured Notes issued by BHA are senior unsecured obligations of BHA and are jointly and severally guaranteed on a senior unsecured basis by the Company and each of its subsidiaries (other than BHA) that is a guarantor under the Senior Secured Credit Facilities. Future subsidiaries of the Company and BHA, if any, may be required to guarantee the Senior Unsecured Notes. On a non-consolidated basis, the non-guarantor subsidiaries had total assets of $2,674 million and total liabilities of $1,196 million as of June 30, 2019, and revenues of $720 million and operating income of $68 million for the six months ended June 30, 2019.

If the Company experiences a change in control, the Company may be required to make an offer to repurchase each series of Senior Unsecured Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount of the Senior Unsecured Notes repurchased, plus accrued and unpaid interest.

*8.50% Senior Unsecured Notes due 2027 - March 2019 Refinancing Transactions*

As part of the March 2019 Refinancing Transactions described above, BHA issued $1,000 million aggregate principal amount of 8.50% Senior Unsecured Notes due January 2027. These are additional notes and form part of the same series as the Company's existing January 2027 Unsecured Notes.

*7.00% Senior Unsecured Notes due 2028 and 7.25% Senior Unsecured Notes due 2029 - May 2019 Refinancing Transactions*

On May 23, 2019, the Company issued: (i) $750 million aggregate principal amount of January 2028 Unsecured Notes and (ii) $750 million aggregate principal amount of May 2029 Unsecured Notes, respectively, in a private placement, the net proceeds of which, and cash on hand, were used to: (i) repurchase $1,118 million of May 2023 Unsecured Notes, (ii) repurchase $382 million of March 2023 Unsecured Notes and (iii) pay all fees and expenses associated with these transactions. Interest on the January 2028 Unsecured Notes is payable semi-annually in arrears on each January 15 and July 15. Interest on the May 2029 Unsecured Notes is payable semi-annually in arrears on each May 30 and November 30.

The January 2028 Unsecured Notes and the May 2029 Unsecured Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2023 and May 30, 2024, respectively, at the redemption prices set forth in the respective indenture. The Company may redeem some or all of the January 2028 Unsecured Notes or the May 2029 Unsecured Notes prior to January 15, 2023 and May 30, 2024, respectively, at a price equal to 100% of the principal

amount thereof plus a “make-whole” premium. Prior to July 15, 2022, and May 30, 2022, the Company may redeem up to 40% of the aggregate principal amount of the January 2028 Unsecured Notes or the May 2029 Unsecured Notes, respectively, using the proceeds of certain equity offerings at the redemption price set forth in the respective indenture.

*Covenant Compliance*

Any inability to comply with the financial maintenance covenant under the terms of our Restated Credit Agreement, Senior Secured Notes indentures or Senior Unsecured Notes indentures could lead to a default or an event of default for which we may need to seek relief from our lenders and noteholders in order to waive the associated default or event of default and avoid a potential acceleration of the related indebtedness or cross-default or cross-acceleration to other debt. There can be no assurance that we would be able to obtain such relief on commercially reasonable terms or otherwise and we may be required to incur significant additional costs. In addition, the lenders under our Restated Credit Agreement, holders of our Senior Secured Notes and holders of our Senior Unsecured Notes may impose additional operating and financial restrictions on us as a condition to granting any such waiver.

During 2017, 2018 and through the six months ended June 30, 2019, the Company completed several actions which included using cash flows from operations to repay debt and refinancing debt with near term maturities. These actions have reduced the Company’s debt balance and positively affected the Company’s ability to comply with the financial maintenance covenant. As of June 30, 2019, the Company was in compliance with its financial maintenance covenant related to its outstanding debt. The Company, based on its current forecast for the next twelve months from the date of issuance of this Form 10-Q, expects to remain in compliance with the financial maintenance covenant and meet its debt service obligations over that same period.

The Company continues to take steps to improve its operating results to ensure continual compliance with its financial maintenance covenant and take other actions to reduce its debt levels to align with the Company’s long-term strategy. The Company may consider taking other actions, including divesting other businesses, refinancing debt and issuing equity or equity-linked securities as deemed appropriate, to provide additional coverage in complying with the financial maintenance covenant and meeting its debt service obligations.

*Weighted Average Interest Rate*

The weighted average stated rate of interest of the Company's outstanding debt as of June 30, 2019 and December 31, 2018 was 6.44% and 6.23%, respectively.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Consolidated Financial Statements for further details.

***Credit Ratings***

As of August 6, 2019, the credit ratings and outlook from Moody's, Standard & Poor's and Fitch for certain outstanding obligations of the Company were as follows:

| Rating Agency | Corporate Rating | Senior Secured Rating | Senior Unsecured Rating | Outlook |
|---|---|---|---|---|
| Moody’s | B2 | Ba2 | B3 | Stable |
| Standard & Poor’s | B | BB- | B- | Stable |
| Fitch | B | BB | B | Stable |

Any downgrade in our corporate credit ratings or other credit ratings may increase our cost of borrowing and may negatively impact our ability to raise additional debt capital.

***Future Cash Requirements***

A substantial portion of our cash requirements for the remainder of 2019 are for debt service. Our other future cash requirements relate to working capital, capital expenditures, business development transactions (contingent consideration), restructuring and integration, benefit obligations and litigation settlements. In addition, we may use cash to enter into licensing arrangements and/or to make strategic acquisitions.

In addition to our working capital requirements, as of June 30, 2019, we expect our primary cash requirements during the remainder of 2019 to be as follows:

- *Debt ser*vice—We expect to make principal and interest payments of approximately $864 million during the remainder of 2019, which includes the $100 million in principal prepayments we made on August 1, 2019, that reduces the scheduled maturity payments of our term loan facilities in 2020. As a result of prepayments and a series of refinancing transactions we have reduced and extended the maturities of a substantial portion of our long-term debt. As of the date of this filing, scheduled principal repayments of our debt obligations through 2021 are approximately $410 million. We may elect to make additional principal payments under certain circumstances. Further, in the ordinary course of business, we may borrow and repay amounts under our 2023 Revolving Credit Facility to meet business needs;
- *IT Infrastructure Investment*—We expect to make payments of approximately $53 million for licensing, maintenance and other costs associated with our IT infrastructure improvement projects during the remainder of 2019;
- *Capital expenditures*—We expect to make payments of approximately $165 million for property, plant and equipment during the remainder of 2019;
- *Contingent consideration payments*—We expect to make contingent consideration and other approval/sales-based milestone payments of approximately $21 million during the remainder of 2019;
- *Restructuring and integration payments*—We expect to make payments of approximately $15 million during the remainder of 2019 for employee separation costs and lease termination obligations associated with restructuring and integration actions we have taken through June 30, 2019; and
- *Benefit obligations*—We expect to make payments under our pension and postretirement obligations of approximately $7 million during the remainder of 2019.

We continue to evaluate opportunities to improve our operating results and may initiate additional cost savings programs to streamline our operations and eliminate redundant processes and expenses. These cost savings programs may include, but are not limited to: (i) reducing headcount, (ii) eliminating real estate costs associated with unused or under-utilized facilities and (iii) implementing contribution margin improvement and other cost reduction initiatives. The expenses associated with the implementation of these cost savings programs could be material and may impact our cash flows.

In the ordinary course of business, the Company is involved in litigation, claims, government inquiries, investigations, charges and proceedings. See Note 19, "LEGAL PROCEEDINGS" to our unaudited interim Consolidated Financial Statements. Our ability to successfully defend the Company against pending and future litigation may impact future cash flows.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material effect on our results of operations, financial condition, capital expenditures, liquidity, or capital resources. The following table summarizes our contractual obligations related to our long-term debt, including interest, as of June 30, 2019:

| *(in millions)* | Total | Remainder of 2019 | 2020 | 2021 and 2022 | 2023 and 2024 | Thereafter |
|---|---|---|---|---|---|---|
| Long-term debt obligations, including interest | $ 33,622 | $ 767 | $ 1,731 | $ 4,819 | $ 8,870 | $ 17,435 |

There have been no other material changes to the contractual obligations disclosed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Off-Balance Sheet Arrangements and Contractual Obligations” included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 20, 2019.

## OUTSTANDING SHARE DATA

Our common shares trade on the New York Stock Exchange and the Toronto Stock Exchange under the symbol “BHC”.

At August 1, 2019, we had 352,267,545 issued and outstanding common shares. In addition, as of August 1, 2019, we had outstanding 7,341,635 stock options and 6,142,874 time-based restricted share units that each represent the right of a holder to receive one of the Company’s common shares, and 2,098,986 performance-based restricted share units that represent the right of a holder to receive a number of the Company's common shares up to a specified maximum. A maximum of 4,231,079 common shares could be issued upon vesting of the performance-based restricted share units outstanding.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those policies and estimates that are most important and material to the preparation of our Consolidated Financial Statements, and which require management’s most subjective and complex judgment due to the need to select policies from among alternatives available, and to make estimates about matters that are inherently

uncertain. Management has reassessed the critical accounting policies as disclosed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 20, 2019, and determined that there were no significant changes in our critical accounting policies in the six months ended June 30, 2019, except for recently adopted accounting guidance as discussed in Note 2, "SIGNIFICANT ACCOUNTING POLICIES" to our unaudited interim Consolidated Financial Statements.

## NEW ACCOUNTING STANDARDS

### Adoption of New Accounting Guidance

Information regarding recently issued accounting guidance is contained in Note 2, "SIGNIFICANT ACCOUNTING POLICIES" of notes to the unaudited interim Consolidated Financial Statements.

## FORWARD-LOOKING STATEMENTS

Caution regarding forward-looking information and statements and “Safe-Harbor” statements under the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws:

To the extent any statements made in this Form 10-Q contain information that is not historical, these statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and may be forward-looking information within the meaning defined under applicable Canadian securities laws (collectively, “forward-looking statements”).

These forward-looking statements relate to, among other things: our business strategy, business plans and prospects and forecasts and changes thereto; product pipeline, prospective products and product approvals, product development and future performance and results of current and anticipated products; anticipated revenues for our products, including the Significant Seven; anticipated growth in our Ortho Dermatologics business; expected R&D and marketing spend, including in connection with the promotion of the Significant Seven; our expected primary cash and working capital requirements for 2019 and beyond; the Company's plans for continued improvement in operational efficiency and the anticipated impact of such plans; our liquidity and our ability to satisfy our debt maturities as they become due; our ability to reduce debt levels; our ability to meet the financial and other covenants contained in our Fourth Amended and Restated Credit and Guaranty Agreement (the "Restated Credit Agreement"), and indentures; the impact of our distribution, fulfillment and other third-party arrangements; proposed pricing actions; exposure to foreign currency exchange rate changes and interest rate changes; the outcome of contingencies, such as litigation, subpoenas, investigations, reviews, audits and regulatory proceedings; the anticipated impact of the adoption of new accounting standards; general market conditions; our expectations regarding our financial performance, including revenues, expenses, gross margins and income taxes; and our impairment assessments, including the assumptions used therein and the results thereof.

Forward-looking statements can generally be identified by the use of words such as “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “continue”, “will”, “may”, “could”, “would”, “should”, “target”, “potential”, “opportunity”, “designed”, “create”, “predict”, “project”, “forecast”, “seek”, “strive”, “ongoing” or “increase” and variations or other similar expressions. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements may not be appropriate for other purposes. Although we have previously indicated certain of these statements set out herein, all of the statements in this Form 10-Q that contain forward-looking statements are qualified by these cautionary statements. These statements are based upon the current expectations and beliefs of management. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making such forward-looking statements, including, but not limited to, factors and assumptions regarding the items previously outlined, those factors, risks and uncertainties outlined below and the assumption that none of these factors, risks and uncertainties will cause actual results or events to differ materially from those described in such forward-looking statements. Actual results may differ materially from those expressed or implied in such statements. Important factors, risks and uncertainties that could cause actual results to differ materially from these expectations include, among other things, the following:

- the expense, timing and outcome of legal and governmental proceedings, investigations and information requests relating to, among other matters, our past distribution, marketing, pricing, disclosure and accounting practices (including with respect to our former relationship with Philidor Rx Services, LLC ("Philidor")), including pending investigations

by the U.S. Attorney's Office for the District of Massachusetts and the U.S. Attorney's Office for the Southern District of New York, the pending investigations by the U.S. Securities and Exchange Commission (the "SEC") of the Company, the investigation order issued by the Company from the Autorité des marchés financiers (the "AMF") (the Company's principal securities regulator in Canada), a number of pending putative securities class action litigations in the U.S. (including related opt-out actions) and Canada (including related opt-out actions) and purported class actions under the federal RICO statute and other claims, investigations or proceedings that may be initiated or that may be asserted;

- potential additional litigation and regulatory investigations (and any costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom), negative publicity and reputational harm on our Company, products and business that may result from the past and ongoing public scrutiny of our past distribution, marketing, pricing, disclosure and accounting practices and from our former relationship with Philidor;
- the past and ongoing scrutiny of our legacy business practices, including with respect to pricing (including the investigations by the U.S. Attorney's Offices for the District of Massachusetts and the Southern District of New York), and any pricing controls or price adjustments that may be sought or imposed on our products as a result thereof;
- pricing decisions that we have implemented, or may in the future elect to implement, such as the Patient Access and Pricing Committee's commitment that the average annual price increase for our branded prescription pharmaceutical products will be set at no greater than single digits, or any future pricing actions we may take following review by our Patient Access and Pricing Committee (which is responsible for the pricing of our drugs);
- legislative or policy efforts, including those that may be introduced and passed by the U.S. Congress, designed to reduce patient out-of-pocket costs for medicines, which could result in new mandatory rebates and discounts or other pricing restrictions, controls or regulations (including mandatory price reductions);
- ongoing oversight and review of our products and facilities by regulatory and governmental agencies, including periodic audits by the U.S. Food and Drug Administration (the "FDA") and the results thereof;
- actions by the FDA or other regulatory authorities with respect to our products or facilities;
- our substantial debt (and potential additional future indebtedness) and current and future debt service obligations, our ability to reduce our outstanding debt levels and the resulting impact on our financial condition, cash flows and results of operations;
- our ability to meet the financial and other covenants contained in our Restated Credit Agreement, indentures and other current or future debt agreements and the limitations, restrictions and prohibitions such covenants impose or may impose on the way we conduct our business, including prohibitions on incurring additional debt if certain financial covenants are not met, limitations on the amount of additional debt we are able to incur where not prohibited, and restrictions on our ability to make certain investments and other restricted payments;
- any default under the terms of our senior notes indentures or Restated Credit Agreement and our ability, if any, to cure or obtain waivers of such default;
- any delay in the filing of any future financial statements or other filings and any default under the terms of our senior notes indentures or Restated Credit Agreement as a result of such delays;
- any downgrade by rating agencies in our credit ratings, which may impact, among other things, our ability to raise debt and the cost of capital for additional debt issuances;
- any reductions in, or changes in the assumptions used in, our forecasts for fiscal year 2019 or beyond, which could lead to, among other things: (i) a failure to meet the financial and/or other covenants contained in our Restated Credit Agreement and/or indentures and/or (ii) impairment in the goodwill associated with certain of our reporting units or impairment charges related to certain of our products or other intangible assets, which impairments could be material;
- changes in the assumptions used in connection with our impairment analyses or assessments, which would lead to a change in such impairment analyses and assessments and which could result in an impairment in the goodwill associated with any of our reporting units or impairment charges related to certain of our products or other intangible assets;
- the uncertainties associated with the acquisition and launch of new products (such as our recently launched Bryhali™, Duobrii™ and Ocuvite® Eye Performance products), including, but not limited to, our ability to provide the time, resources, expertise and costs required for the commercial launch of new products, the acceptance and demand for new

pharmaceutical products, and the impact of competitive products and pricing, which could lead to material impairment charges;

- our ability or inability to extend the profitable life of our products, including through line extensions and other life-cycle programs;
- our ability to retain, motivate and recruit executives and other key employees;
- our ability to implement effective succession planning for our executives and key employees;
- factors impacting our ability to achieve anticipated growth in our Ortho Dermatologics business, including the success of recently launched products (such as Bryhali™ and Duobrii™) the ability to successfully implement and operate Dermatology.com, our new cash-pay prescription program for certain of our Ortho Dermatologics branded products, and the ability of such program to achieve the anticipated goals respecting patient access and fulfillment, the approval of pending and pipeline products (and the timing of such approvals), expected geographic expansion, changes in estimates on market potential for dermatology products and continued investment in and success of our sales force;
- factors impacting our ability to achieve anticipated revenues for our Significant Seven products, including changes in anticipated marketing spend on such products and launch of competing products;
- the challenges and difficulties associated with managing a large complex business, which has, in the past, grown rapidly;
- our ability to compete against companies that are larger and have greater financial, technical and human resources than we do, as well as other competitive factors, such as technological advances achieved, patents obtained and new products introduced by our competitors;
- our ability to effectively operate and grow our businesses in light of the challenges that the Company has faced and market conditions, including with respect to its substantial debt, pending investigations and legal proceedings, scrutiny of our past pricing and other practices, and limitations on the way we conduct business imposed by the covenants in our Restated Credit Agreement, indentures and the agreements governing our other indebtedness;
- the extent to which our products are reimbursed by government authorities, pharmacy benefit managers ("PBMs") and other third-party payors; the impact our distribution, pricing and other practices (including as it relates to our current relationship with Walgreen Co. ("Walgreens")) may have on the decisions of such government authorities, PBMs and other third-party payors to reimburse our products; and the impact of obtaining or maintaining such reimbursement on the price and sales of our products;
- the inclusion of our products on formularies or our ability to achieve favorable formulary status, as well as the impact on the price and sales of our products in connection therewith;
- the consolidation of wholesalers, retail drug chains and other customer groups and the impact of such industry consolidation on our business;
- our eligibility for benefits under tax treaties and the continued availability of low effective tax rates for the business profits of certain of our subsidiaries;
- the actions of our third-party partners or service providers of research, development, manufacturing, marketing, distribution or other services, including their compliance with applicable laws and contracts, which actions may be beyond our control or influence, and the impact of such actions on our Company, including the impact to the Company of our former relationship with Philidor and any alleged legal or contractual non-compliance by Philidor;
- the risks associated with the international scope of our operations, including our presence in emerging markets and the challenges we face when entering and operating in new and different geographic markets (including the challenges created by new and different regulatory regimes in such countries and the need to comply with applicable anti-bribery and economic sanctions laws and regulations);
- adverse global economic conditions and credit markets and foreign currency exchange uncertainty and volatility in certain of the countries in which we do business;
- the impact of the recently signed United States-Mexico-Canada Agreement (“USMCA”) and any potential changes to other trade agreements;

- the final outcome and impact of Brexit negotiations;
- the trade conflict between the United States and China;
- our ability to obtain, maintain and license sufficient intellectual property rights over our products and enforce and defend against challenges to such intellectual property;
- the introduction of generic, biosimilar or other competitors of our branded products and other products, including the introduction of products that compete against our products that do not have patent or data exclusivity rights;
- our ability to identify, finance, acquire, close and integrate acquisition targets successfully and on a timely basis and the difficulties, challenges, time and resources associated with the integration of acquired companies, businesses and products;
- any additional divestitures of our assets or businesses and our ability to successfully complete any such divestitures on commercially reasonable terms and on a timely basis, or at all, and the impact of any such divestitures on our Company, including the reduction in the size or scope of our business or market share, loss of revenue, any loss on sale, including any resultant impairments of goodwill or other assets, or any adverse tax consequences suffered as a result of any such divestitures;
- the expense, timing and outcome of pending or future legal and governmental proceedings, arbitrations, investigations, subpoenas, tax and other regulatory audits, examinations, reviews and regulatory proceedings against us or relating to us and settlements thereof;
- our ability to negotiate the terms of or obtain court approval for the settlement of certain legal and regulatory proceedings;
- our ability to obtain components, raw materials or finished products supplied by third parties (some of which may be single-sourced) and other manufacturing and related supply difficulties, interruptions and delays;
- the disruption of delivery of our products and the routine flow of manufactured goods;
- economic factors over which the Company has no control, including changes in inflation, interest rates, foreign currency rates, and the potential effect of such factors on revenues, expenses and resulting margins;
- interest rate risks associated with our floating rate debt borrowings;
- our ability to effectively distribute our products and the effectiveness and success of our distribution arrangements, including the impact of our arrangements with Walgreens;
- our ability to effectively promote our own products and those of our co-promotion partners, such as Doptelet® (Dova Pharmaceuticals, Inc.) and Lucemyra® (US WorldMeds, LLC);
- the success of our fulfillment arrangements with Walgreens, including market acceptance of, or market reaction to, such arrangements (including by customers, doctors, patients, PBMs, third-party payors and governmental agencies), and the continued compliance of such arrangements with applicable laws;
- our ability to secure and maintain third-party research, development, manufacturing, licensing, marketing or distribution arrangements;
- the risk that our products could cause, or be alleged to cause, personal injury and adverse effects, leading to potential lawsuits, product liability claims and damages and/or recalls or withdrawals of products from the market;
- the mandatory or voluntary recall or withdrawal of our products from the market and the costs associated therewith;
- the availability of, and our ability to obtain and maintain, adequate insurance coverage and/or our ability to cover or insure against the total amount of the claims and liabilities we face, whether through third-party insurance or self-insurance;
- the difficulty in predicting the expense, timing and outcome within our legal and regulatory environment, including with respect to approvals by the FDA, Health Canada and similar agencies in other countries, legal and regulatory proceedings and settlements thereof, the protection afforded by our patents and other intellectual and proprietary property, successful generic challenges to our products and infringement or alleged infringement of the intellectual property of others;

- the results of continuing safety and efficacy studies by industry and government agencies;
- the success of preclinical and clinical trials for our drug development pipeline or delays in clinical trials that adversely impact the timely commercialization of our pipeline products, as well as other factors impacting the commercial success of our products, which could lead to material impairment charges;
- the results of management reviews of our research and development portfolio (including following the receipt of clinical results or feedback from the FDA or other regulatory authorities), which could result in terminations of specific projects which, in turn, could lead to material impairment charges;
- the seasonality of sales of certain of our products;
- declines in the pricing and sales volume of certain of our products or the products that we co-promote (such as Doptelet® and Lucemyra®) that are distributed or marketed by third parties, over which we have no or limited control;
- compliance by the Company or our third party partners and service providers (over whom we may have limited influence), or the failure of our Company or these third parties to comply, with health care "fraud and abuse" laws and other extensive regulation of our marketing, promotional and business practices (including with respect to pricing), worldwide anti-bribery laws (including the U.S. Foreign Corrupt Practices Act and the Canadian Corruption of Foreign Public Officials Act), worldwide economic sanctions and/or export laws, worldwide environmental laws and regulation and privacy and security regulations;
- the impacts of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the "Health Care Reform Act") and potential amendment thereof and other legislative and regulatory health care reforms in the countries in which we operate, including with respect to recent government inquiries on pricing;
- the impact of any changes in or reforms to the legislation, laws, rules, regulation and guidance that apply to the Company and its business and products or the enactment of any new or proposed legislation, laws, rules, regulations or guidance that will impact or apply to the Company or its businesses or products;
- the impact of changes in federal laws and policy under consideration by the Trump administration and Congress, including the effect that such changes will have on fiscal and tax policies, the potential revision of all or portions of the Health Care Reform Act, international trade agreements and policies and policy efforts designed to reduce patient out-of-pocket costs for medicines (which could result in new mandatory rebates and discounts or other pricing restrictions);
- illegal distribution or sale of counterfeit versions of our products;
- interruptions, breakdowns or breaches in our information technology systems; and
- risks in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, filed on February 20, 2019, and risks detailed from time to time in our other filings with the SEC and the Canadian Securities Administrators (the "CSA"), as well as our ability to anticipate and manage the risks associated with the foregoing.

Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found in our Annual Report on Form 10-K for the year ended December 31, 2018, filed on February 20, 2019, under Item 1A. "Risk Factors" and in the Company's other filings with the SEC and CSA. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These forward-looking statements speak only as of the date made. We undertake no obligation to update or revise any of these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect actual outcomes, except as required by law. We caution that, as it is not possible to predict or identify all relevant factors that may impact forward-looking statements, the foregoing list of important factors that may affect future results is not exhaustive and should not be considered a complete statement of all potential risks and uncertainties.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Other than as indicated below under "— Interest Rate Risk", there have been no material changes to our exposures to market risks as disclosed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market Risks" included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 20, 2019.

Interest Rate Risk

As of June 30, 2019, we had $16,962 million and $5,698 million principal amount of issued fixed rate debt and variable rate debt, respectively, that requires U.S. dollar repayment, as well as €1,500 million principal amount of issued fixed rate debt that requires repayment in euros. The estimated fair value of our issued fixed rate debt as of June 30, 2019, including the debt denominated in euros, was $19,586 million. If interest rates were to increase by 100 basis-points, the estimated fair value of our issued fixed rate debt as of June 30, 2019 would decrease by approximately $513 million. If interest rates were to decrease by 100 basis-points, the estimated fair value of our issued fixed rate debt as of June 30, 2019 would increase by approximately $359 million. We are subject to interest rate risk on our variable rate debt as changes in interest rates could adversely affect earnings and cash flows. A 100 basis-points increase in interest rates, based on 3-month LIBOR, would have an annualized pre-tax effect of approximately $57 million in our Consolidated Statements of Operations and Cash Flows, based on current outstanding borrowings and effective interest rates on our variable rate debt. While our variable-rate debt may impact earnings and cash flows as interest rates change, it is not subject to changes in fair value.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2019.

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.