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," "Bausch Health," and similar terms refer to Bausch Health Companies Inc. and its subsidiaries, taken together. This "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements and the related notes (the "Financial Statements") included elsewhere in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023 (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 1933, as amended, and Section 21E of The Securities Exchange Act of 1934, as amended, and that may be forward-looking information within the meaning of applicable Canadian securities laws (collectively "Forward-Looking Statements"). See "Forward-Looking Statements" at the end of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our accompanying unaudited interim Condensed Consolidated Financial Statements as of June 30, 2023 and for the three and six months ended June 30, 2023 and 2022 *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, 2022, which were included in our Annual Report on Form 10-K filed on February 23, 2023. In our opinion, the unaudited interim Condensed 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. Certain defined terms used herein have the meaning ascribed to them in the Financial Statements.*

OVERVIEW

We are a global, diversified specialty pharmaceutical and medical device company that develops, manufactures and markets, primarily in the therapeutic areas of gastroenterology ("GI"), hepatology, neurology and dermatology, a broad range of branded, generic and branded generic pharmaceuticals, over-the-counter ("OTC") products and aesthetic medical devices, and, through our approximately 89% ownership of Bausch + Lomb Corporation ("Bausch + Lomb" or "B+L"), branded, and branded generic pharmaceuticals, OTC products and medical devices (contact lenses, intraocular lenses, ophthalmic surgical equipment) in the therapeutic areas of eye health. Our products are marketed directly or indirectly in approximately 100 countries.

Our portfolio of products falls into five reportable segments: (i) Salix, (ii) International, (iii) Solta Medical, (iv) Diversified (formerly Diversified Products) and (v) Bausch + Lomb. The following is a brief description of the Company's segments:

- ***The Salix segment*** consists of sales in the U.S. of GI products. Sales of the Xifaxan® product line represented approximately 80% of the Salix segment's revenues.
- ***The International segment*** consists of sales, with the exception of sales of Bausch + Lomb products and Solta Medical aesthetic medical devices, outside the U.S. and Puerto Rico of branded pharmaceutical products, branded generic pharmaceutical products and OTC products.
- ***The Solta Medical segment*** consists of global sales of Solta Medical aesthetic medical devices.
- ***The Diversified segment*** consists of sales in the U.S. of: (i) pharmaceutical products in the areas of neurology and certain other therapeutic classes, (ii) dermatology products, (iii) generic pharmaceutical products and (iv) dentistry products.
- ***The Bausch + Lomb segment*** consists of global sales of Bausch + Lomb Vision Care, Surgical and Pharmaceuticals products.

For additional discussion of our reportable segments, see the subsection " — Segment Revenues and Profits" of Note 18, "SEGMENT INFORMATION" to our unaudited interim Condensed Consolidated Financial Statements.

Separation of the Bausch + Lomb Eye Health Business

On August 6, 2020, we announced our plan to separate our eye health business consisting of our Bausch + Lomb global Vision Care, Surgical and Pharmaceuticals (formerly known as Ophthalmic Pharmaceuticals) businesses into an independent

publicly traded entity, Bausch + Lomb, from the remainder of Bausch Health Companies Inc. (the "B+L Separation"). On May 5, 2022, the registration statement related to the initial public offering of Bausch +Lomb (the "B+L IPO") was declared effective, and B+L's common stock began trading on the New York Stock Exchange and the Toronto Stock Exchange, in each case under the ticker symbol "BLCO" on May 6, 2022. Prior to the effectiveness of the registration statement, B+L was an indirect wholly-owned subsidiary of Bausch Health. On May 10, 2022, a wholly owned subsidiary of the Bausch Health sold 35,000,000 common shares of B+L pursuant to the B+L IPO. Upon the closing of the B+L IPO and after giving effect to the subsequent partial exercise of the over-allotment option by the underwriters, Bausch Health indirectly holds 310,449,643 common shares of Bausch + Lomb, which represents approximately 89% of B+L's outstanding common shares as of the date of this filing.

We continue to believe that completing the B+L Separation makes strategic sense. The completion of the B+L Separation is subject to the achievement of targeted debt leverage ratios and the receipt of applicable shareholder and other necessary approvals. We continue to evaluate all relevant factors and considerations related to the B+L Separation, including the effect of the Norwich Legal Decision (see "*Xifaxan® Paragraph IV Proceedings*" of Note 17, "LEGAL PROCEEDINGS" to our unaudited interim Condensed Consolidated Financial Statements) on the B+L Separation.

The B+L Separation, if consummated, will result in two separate, independent companies:

- **Bausch Health excluding Bausch + Lomb** - a diversified pharmaceutical company with leading positions in gastroenterology, hepatology, dermatology, neurology and international pharmaceuticals, and aesthetic medical devices. The remaining pharmaceutical entity will comprise a diversified portfolio of our leading durable brands across the Salix, International, dentistry, neurology, medical dermatology and generics, and aesthetic medical devices businesses; and

- **Bausch + Lomb** - a fully integrated eye health company built on the iconic Bausch + Lomb brand and its long history of innovation.

As independent entities, management believes that each company will be better positioned to individually focus on its core businesses to drive additional growth, more effectively allocate capital and better manage its respective capital needs. Further, the B+L Separation will allow us and the market to compare the operating results of each entity with other peer companies. Although management believes the B+L Separation will unlock value, there can be no assurance that it will be successful in doing so.

See Item 1A. "Risk Factors — Risk Relating to the B+L Separation" of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC and the CSA on February 23, 2023, for additional risks relating to the B+L Separation.

Focus on Value and Core Businesses

We continue to execute on a multi-year plan designed to transform and bring out value in our Company, which includes focus on, among other factors, our: product portfolio, infrastructure, geographic footprint, capital structure and risk management. We believe that these and other actions we have taken have helped to focus our operations and improve our capital structure.

To position ourselves to unlock the value we see in our individual businesses, we have sought to right-size our portfolio of assets and provide financial flexibility. In line with this focus on our core businesses, we have: (i) made measurable progress in effectively managing our capital structure, including taking actions to reduce the principal balances of our long-term debt, (ii) directed capital allocation to drive growth within these core businesses, (iii) divested assets to improve our capital structure and simplify our business, (iv) resolved certain of the Company's legacy litigation matters originating back to 2015 and prior, (v) increased our efforts to improve patient access and (vi) continued to invest in sustainable growth drivers to position us for long-term growth.

We believe that these and other actions we have taken to transform our Company, have helped focus our operations, unlocked value across our product portfolios, improved our capital structure and mitigated certain risks associated with legacy litigation matters. We believe that these measures, along with our continued commitment to improving people's lives through our health products, help position us to unlock potential value across our portfolio of assets by separating our eye health and pharmaceutical businesses.

Effectively Managing Our Capital Structure

At the time of our announcement of the B+L Separation, we emphasized that it is important that the post-separation entities be well capitalized, with appropriate leverage and with access to additional capital, if and when needed, to provide each entity with the ability to independently allocate capital to areas that will strengthen their own competitive positions in their respective lines of business and position each entity for sustainable growth. Therefore, we see the appropriate

capitalization and leverage of these businesses post-separation as a key to maximizing value across our portfolio of assets and, as such, it is a primary objective of our plan of separation. For additional details on the B+L Separation, see "Separation of the Bausch + Lomb Eye Health Business" in Note 2, "SIGNIFICANT ACCOUNTING POLICIES" to our unaudited interim Condensed Consolidated Financial Statements.

Accounts Receivable Credit Facility

On June 30, 2023, certain of our subsidiaries entered into a Credit and Security Agreement (the "AR Facility Agreement") with certain third-party lenders, providing for a non-recourse financing facility collateralized by certain accounts receivable originated by a wholly-owned subsidiary of the Company (the "AR Credit Facility"). The AR Facility Agreement provides for an up to $600 million facility, subject to certain borrowing base tests. Under the AR Credit Facility, a special purpose entity (the "Borrower"), as the borrower, purchases accounts receivable originated by a wholly-owned subsidiary of the Company, which collateralize borrowings under the AR Credit Facility. The Borrower is a bankruptcy remote entity that is unrestricted under the Company's debt covenants, and which is consolidated by the Company.

Borrowings under the AR Credit Facility are in U.S. dollars and bear interest at a rate per annum equal to the sum of the one month term SOFR plus 6.65%. The Company is required to pay commitment fees of 0.75% multiplied by the lesser of: (i) the unfunded portion of the lenders' commitments or (ii) 50% of the total lenders' commitments.

As of June 30, 2023, there were no outstanding borrowings under the AR Credit Facility. During the period July 1, 2023 through the date of this filing, August 3, 2023, we have drawn $350 million, in the aggregate, of borrowings. Borrowings under our AR Credit Facility are for general corporate purposes.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements and "— Liquidity and Capital Resources — Liquidity and Debt — Long-term Debt" below for additional details.

Managing Our Capital Structure in 2022

During 2022, we improved our capital structure and reduced the aggregate principal amount of our debt obligations by approximately $3,800 million, as we: (i) utilized the net proceeds from the B+L IPO which closed on May 10, 2022, to make repayments of debt, (ii) reduced our debt through open market repurchases of debt with a principal value of approximately $927 million for approximately $550 million, (iii) extended the maturities of our debt through refinancing and (iv) completed an exchange offer which reduced the outstanding principal balance of our debt by $2,469 million by exchanging $5,594 million of aggregate principal value of existing unsecured senior notes (the "Existing Unsecured Senior Notes") for newly issued secured notes with an aggregate principal balance of $3,125 million (the "Exchange Offer").

The B+L IPO, 2022 Notes Issuance and Credit Agreement Refinancing - In connection with the B+L IPO, we completed a series of transactions in support of our commitment to improve our liquidity, reduce our leverage and better capitalize the two business entities post-separation. These transactions included:

- On February 10, 2022, the Company issued $1,000 million aggregate principal amount of 6.125% Senior Secured Notes due February 2027 (the "February 2027 Secured Notes").
- On May 10, 2022:
    - The B+L IPO closed, with aggregate net proceeds (including the partial exercise of the over-allotment option by the underwriters), after deducting underwriting commissions, of approximately $675 million.
    - The Company entered into the 2022 Amended Credit Agreement as defined and discussed in Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements. The 2022 Amended Credit Agreement consists of new term loans of $2,500 million and a revolving credit facility of $975 million.
    - Bausch + Lomb entered into the B+L Credit Agreement, as defined and discussed in Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements. The B+L Credit Agreement provides for a five-year term loan facility in an initial principal amount of $2,500 million and also provides for a five-year revolving credit facility of $500 million.

The net proceeds from these transactions, along with cash on hand, allowed us to: (i) repay certain amounts outstanding under our then existing June 2025 Term Loan B Facility and November 2025 Term Loan B Facility (each as defined and discussed in Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements), (ii) replace our existing revolving credit facility which was due to mature in 2023, with revolving credit facilities that mature in 2027, (iii) redeem in full all of our then outstanding 6.125% Senior Unsecured Notes due 2025 (the "April

2025 Unsecured Notes") and (iv) replace our then remaining amounts outstanding under our June 2025 Term Loan B Facility and November 2025 Term Loan B Facility with term loan facilities that were to expire in 2027.

Early Extinguishment of Debt - During 2022, through a series of transactions we repurchased and retired outstanding senior unsecured notes with an aggregate par value of $927 million in the open market for approximately $550 million using: (i) the net proceeds from the partial exercise of the over-allotment option in the B+L IPO by the underwriters, after deducting underwriting commissions, (ii) amounts available under our revolving credit facility and (iii) cash on hand.

The (i) repayment of the June 2025 Term Loan B Facility, November 2025 Term Loan B Facility and 2023 Revolving Credit Facility and (ii) redemption of the April 2025 Senior Unsecured notes were accounted for as an extinguishment of debt and the Company incurred a loss on extinguishment of debt of $63 million representing the difference between the amount paid to settle the extinguished debt and the extinguished debt's carrying value. As a result of these transactions and the open market repurchases, the Company realized a net gain on early extinguishment of $113 million.

September 2022 Exchange Offer - As discussed in further detail below under "— Liquidity and Capital Resources — Liquidity and Debt — Long-term Debt", we made the strategic decision based on the fair value of our Senior Unsecured Notes to undertake the Exchange Offer in September 2022. We exchanged certain validly tendered existing senior unsecured notes, with an aggregate outstanding principal balance of approximately $5,594 million with maturities of 2025 through 2031 for newly issued senior secured notes, with an aggregate principal balance of approximately $3,125 million with maturities of 2028 and 2030. After fees and expenses, the Exchange Offer reduced the principal balances of our outstanding debt obligations by $2,469 million and extended the maturities of approximately $2,400 million of principal balances coming due during the years 2025 through 2027 to the years 2028 and 2030.

The secured notes issued in the Exchange Offer consist of: (i) $1,774 million in aggregate principal amount of new 11.00% First Lien Secured Notes due 2028 (the "11.00% First Lien Secured Notes") issued by the Company, (ii) $352 million in aggregate principal amount of new 14.00% Second Lien Secured Notes due 2030 (the "14.00% Second Lien Secured Notes", and, together with the 11.00% First Lien Secured Notes, the "New BHC Secured Notes") issued by the Company and (iii) $999 million in aggregate principal amount of new 9.00% Senior Secured Notes due 2028 (the "9.00% Intermediate Holdco Secured Notes", and, together with the New BHC Secured Notes, the "New Secured Notes") issued by 1375209 B.C. Ltd. ("Intermediate Holdco"), an existing wholly-owned unrestricted subsidiary of the Company that holds 38.6% of the issued and outstanding common shares of Bausch + Lomb.

Maturities of our principal balances of debt obligations as of June 30, 2023 were as follows:

(in millions)	Remainder of 2023	2024	2025	2026	2027	2028	Thereafter	Total
Total debt obligations	$ 75	$ 150	$ 2,789	$ 891	$ 6,913	$ 4,990	$ 3,202	$ 19,010

We believe these transactions improve our overall capitalization and leverage.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements and "— Liquidity and Capital Resources — Liquidity and Debt — Long-term Debt" below for additional discussion of these matters. Cash requirements for future debt repayments including interest can be found in "— Liquidity and Capital Resources — Off-Balance Sheet Arrangements and Contractual Obligations."

Continue to Manage our Capital Structure

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. 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.

Direct Capital Allocation to Drive Growth Within Our Core Businesses

Our capital allocation is also driven by our long-term growth strategies. We allocate resources to promote our core businesses globally through: (i) strategic acquisitions, (ii) research and development ("R&D") investment, (iii) strategic licensing agreements and (iv) strategic investments in our infrastructure. We believe that the outcome of this process allows us to better drive value in our product portfolio and generate operational efficiencies.

R&D Investment

We search for new product opportunities through internal development and strategic licensing agreements, that, if successful, will allow us to leverage our commercial footprint, particularly our sales force, and supplement our existing product portfolio and address specific unmet needs in the market.

Our internal R&D organization focuses on the development of products through clinical trials. As of December 31, 2022, approximately 1,300 dedicated R&D and quality assurance employees in 25 R&D facilities were involved in our R&D efforts internally.

As of June 30, 2023, we had approximately 100 projects in our global pipeline. Certain core internal R&D projects that have received a significant portion of our R&D investment in current and prior periods are listed below.

Gastrointestinal

- Rifaximin -
  - Two global Phase 3 studies for the use of a rifaximin soluble solid dispersion ("SSD") formulation for the prevention of overt hepatic encephalopathy ("OHE") in patients with early decompensation in liver cirrhosis (RED-C) have commenced. We expect to complete enrollment of two global Phase 3 trials in the first quarter of 2024. Based on the top line results of a Phase 2 study, patients receiving 40 mg twice daily showed a statistically significant separation from placebo. We have completed scientific advisory meetings with the Medicines Evaluation Board in the Netherlands and with Health Canada, and have received feedback on the program from National Medical Products Administration in China. We are currently planning to meet with authorities in Japan later this year.
  - Recently received orphan drug designation for sickle cell disease. A phase 2 study with novel dosage formulation is currently enrolling patients for the treatment of sickle cell disease.
  - Development of a fit for purpose Patient Reported Outcomes tool for small intestinal bacterial overgrowth, or "SIBO", is continuing in 2023 and will be validated in an upcoming clinical trial.
- Amiselimod (S1P modulator) - A Phase 2 study to evaluate Amiselimod (S1P modulator) for the treatment of mild to moderate ulcerative colitis completed enrollment in July 2023 and the study is expected to be completed in the fourth quarter of 2023.

Solta Medical

- Clear + Brilliant® *Touch* - Next generation Clear + Brilliant® laser is designed to deliver a customized and more comprehensive treatment protocol by providing patients of all ages and skin types the benefits of two wavelengths with submissions in Europe and Canada planned in 2024, and in Asia Pacific markets in 2025.
- Fraxel® - Next Generation Fraxel® is a fractionated laser device for skin resurfacing and is planned for FDA submission later in 2023.

Dermatology

- Internal Development Project ("IDP") - 126 - An acne product with a fixed combination of benzoyl peroxide, clindamycin phosphate and adapalene. The FDA has accepted our New Drug Application ("NDA") with an October 20, 2023 Prescription Drug User Fee Act ("PDUFA") date. A New Drug Submission was submitted to Health Canada on May 30, 2023.

Bausch + Lomb

- SiHy Daily - A silicone hydrogel daily disposable contact lens designed to provide clear vision throughout the day. To date, SiHy Daily has been launched in approximately 50 countries, under the brand names INFUSE®, ULTRA® ONE DAY and AQUALOX® ONE DAY. Bausch + Lomb plans to launch its SiHy Daily lenses into additional countries throughout 2023. In addition, Bausch + Lomb launched its first silicone hydrogel daily disposable multifocal contact lens in May 2023 and plans to launch a toric lens in 2024.
- LUMIFY® (brimonidine tartrate ophthalmic solution, 0.025%) - An OTC eye drop developed as an ocular redness reliever. To date, Bausch + Lomb has launched and acquired the right to launch Lumify® in various countries. Bausch + Lomb also has several innovative new line extension formulations under development, including Lumify® Eye Illuminations which Bausch + Lomb expects to launch in 2023, Lumify Preservative Free, for which an NDA was submitted to the FDA in May 2023 and Lumify® Allergy, for which an NDA is expected to be submitted to the FDA during 2024.

- Bausch + Lomb is expanding its portfolio of premium intraocular lenses ("IOL") built on the enVista® platform with Aspire™ (Monofocal Plus), Envy™ Trifocal and BEYOND™ (extended depth of focus ("EDOF")) optical designs with two options: non-Toric and Toric for astigmatism patients. Bausch + Lomb expects that they will be commercialized together with a new preloaded EyeGility inserter. Bausch + Lomb anticipates launching Monofocal Plus, Trifocal and EDOF optical designs for presbyopia in the U.S. in 2023, 2024 and 2025/2026, respectively.

Strategic Licensing Agreements

To supplement our internal R&D initiatives and to build-out and refresh our product portfolio, we also search for opportunities to augment our pipeline through arrangements that allow us to gain access to unique products and investigational treatments, by strategically aligning ourselves with other innovative product solutions.

In the normal course of business, the Company may enter into select licensing and collaborative agreements for the commercialization and/or development of unique products primarily in the U.S. and Canada. These products are sometimes investigational treatments in early stage development that target unique conditions. The ultimate outcome, including whether the product will be: (i) fully developed, (ii) approved by the FDA or other regulators, (iii) covered by third-party payors or (iv) profitable for distribution, is highly uncertain. Under certain agreements, the Company may be required to make payments contingent upon the achievement of specific developmental, regulatory, or commercial milestones.

Strategic Acquisitions

We remain very selective when considering any acquisition and pursue only those opportunities that we believe align well with our current organization and strategic plan. We sometimes refer to these opportunities as "bolt on" acquisitions. In being selective, we seek to enter into only those acquisitions that provide us with significant synergies with our existing business, thereby minimizing risks to our core businesses and providing long-term growth opportunities.

During July 2023, Bausch + Lomb acquired the Blink® product line of eye and contact lens drops from Johnson & Johnson Vision, which consists of Blink® Tears Lubricating Eye Drops, Blink® Tears Preservative Free Lubricating Eye Drops, Blink GelTears® Lubricating Eye Drops, Blink® Triple Care Lubricating Eye Drops, Blink Contacts® Lubricating Eye Drops, and Blink-N-Clean® Lens Drops. Bausch + Lomb believes this acquisition will enable it to continue to grow its global OTC business.

During June 2023, Bausch + Lomb entered into a definitive agreement with Novartis Pharma AG and Novartis Finance Corporation (together with Novartis Pharma AG, "Novartis") to acquire XIIDRA®, the first and only non-steroid eye drop specifically approved to treat the signs and symptoms of dry eye disease focusing on inflammation associated with dry eye. As part of the transaction Bausch + Lomb will also acquire libvatrep, an investigational compound being studied for the treatment of chronic ocular surface pain, and AcuStream® technology, an investigational device that may have the potential to facilitate precise dosing and accurate delivery of certain topical ophthalmic medications to the eye. Bausch + Lomb believes this acquisition will complement and grow its existing dry eye franchise. The transaction is expected to close by the end of 2023, subject to receipt of regulatory approval and other customary closing conditions. See Item 1A "Risk Factors" of Part II of this Form 10-Q for additional information on the risks relating to the acquisition of XIIDRA®.

During January 2023, Bausch + Lomb acquired AcuFocus, Inc., an ophthalmic medical device company that has delivered small aperture intraocular technology to address the diverse unmet needs in eye care. The IC-8® Apthera™ IOL was approved by the FDA in July 2022 as the first and only small aperture non-toric EDOF IOL for certain cataract patients who have as much as 1.5 diopters of corneal astigmatism and wish to address presbyopia at the same time. Bausch + Lomb believes the IC-8® Apthera™ EDOF IOL will bolster its surgical portfolio by enhancing the IOL offerings, which is a strategic area of focus for Bausch + Lomb.

Improve Patient Access

Improving patient access to our products, as well as making them more affordable, is a key element of our business strategy.

Patient Access and Pricing Team - We formed the Patient Access and Pricing Team which is committed to maintaining patients ability to access our branded prescription pharmaceutical products. All future pricing actions will be subject to review by the Patient Access and Pricing Team. Future pricing changes and programs could affect the average realized pricing for our products and may have a significant impact on our revenues and profits.

Bausch Health Patient Assistance Program - We are committed to supporting patients through our Patient Assistance Program which offers free medication for patients who meet income and other eligibility criteria. If approved, patients receive their Bausch Health prescription product(s) at no cost to them for up to one year, and may be able to reapply to the program annually if they continue to meet eligibility requirements and have a valid prescription.

Cash-pay Prescription Program - The cash-pay program was adopted to address the affordability and availability of certain branded dermatology products, when insurers and pharmacy benefit managers are no longer offering those branded prescription pharmaceutical products under their designated pharmacy benefit offerings. This program is currently limited to a select group of our brands and offered through our unique telemedicine and fulfillment platform which allows for patients to choose direct delivery to their home or to use a pharmacy of their choice. This program is designed to connect patients with dermatologists and provide patients both a predictable customer experience and a predictable cost for their dermatology health care needs.

Walgreens Fulfillment Arrangements - Under our brand fulfillment arrangement with Walgreen Co. ("Walgreens"), we make certain dermatology and ophthalmology products available to eligible patients through patient access and co-pay assistance programs at Walgreens U.S. retail pharmacy locations, as well as participating independent retail pharmacies.

Invest in Sustainable Growth Drivers to Position us for Long-Term Growth

We are constantly challenged by the changing dynamics of our industry to innovate and bring new products to market. Our investment in R&D reflects our commitment to drive organic growth through internal development of new products 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. We continue to make strategic investments to drive revenue growth and build our R&D pipeline to ultimately bring products that serve patient needs. 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. To that end, we have identified key growth drivers across all our business segments and where we see significant opportunity.

Focus on Core Business in 2023

We remain focused on growth, through innovation increasing the size, breadth and depth of our product pipeline through R&D and strategic business development.

Our key investment priorities for 2023 are as follows:

Salix - We believe in our GI product portfolio and we have implemented initiatives, including increasing our marketing investment in Xifaxan®, to further capitalize on the value of the infrastructure we have built around these products to extend our market share. We are increasing our investment in Xifaxan® direct-to-consumer ("DTC") advertising and new sales force capabilities. We also continue to invest in our product line. Our rifaximin SSD formulation, is under development for the prevention of OHE and other complications in patients with early decompensation in liver cirrhosis (RED-C). The drug candidate is administered orally, and is a next-generation rifaximin formulation that acts by targeting beta-subunit of bacterial DNA-dependent RNA polymerase.

International - Our International product portfolio consists of several new launches including Ryaltris® for moderate to severe seasonal allergic rhinitis and Uceris®, an aerosol foam for distal ulcerative colitis in Canada. We are also pursuing opportunities in the dermatology markets globally for products that address acne, atopic dermatitis, psoriasis and onychomycosis. To address these and other opportunities we continue to invest in the training and expansion of our sales and marketing teams.

Solta Medical - More than 70% of our Solta Medical business revenues has historically come from consumables, which we believe results in a durable business model. We continue to invest in expanding our presence in key markets, including broadening the reach of our DTC campaigns in the U.S., the expansion of Thermage® FLX and the strengthening of our sales force in the U.S. and Europe.

Diversified - We continue to seek out ways to bring out value in our promoted and nonpromoted products within our Diversified portfolios. In 2023 we anticipate making additional investments in the marketing and advertising of Aplenzin® as the only approved major depressive disorder product for Seasonal Affective Disorder, and also expanding our consumer awareness campaign for Jublia®. In addition, in support of our established acne product portfolio we also have a project in our pipeline, IDP-126, which is a fixed combination of benzoyl peroxide, clindamycin phosphate and adapalene. The FDA has accepted our NDA with an October 20, 2023 PDUFA date. In our generics portfolio, we are focused on effectively managing this portfolio of non-promoted products. In our Dentistry business, we are increasing our investments in Arestin® direct to patient activation and awareness campaigns.

Business Trends

In addition to the actions previously outlined, the events described below have affected and may affect our business trends. The matters discussed in this section contain forward-looking statements. Please see "Forward-Looking Statements" at the end of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Russia-Ukraine War

In February 2022, Russia invaded Ukraine. As military activity and sanctions against Russia, Belarus and specific areas of Ukraine have continued, the war has affected economic and global financial markets as well as ongoing economic challenges, including issues such as high levels of inflation and global supply-chain disruption.

Our revenues attributable to Russia, Ukraine and Belarus, in the aggregate, were approximately $77 million and $71 million for the six months ended June 30, 2023 and 2022, respectively. The Company does not have any research or manufacturing facilities in Russia, Ukraine or Belarus. To date, the Russia-Ukraine war has not had a material impact on our business, however we are not able to determine the ultimate future direct or indirect impacts this war may have on our business.

For a further discussion of these and other risks relating to our international business, see Item 1A. "Risk Factors — Risk Relating to the Russia and Ukraine conflict" in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC and the CSA on February 23, 2023.

COVID-19 Update

During 2022, the outbreak of the omicron variant in China resulted in government enforced lockdowns and other social restrictions, which impacted our ability to conduct business as usual in certain regions in China, particularly Shanghai. The lockdowns in China impacted the demand for certain products, particularly B+L's Vision care and our Solta Medical products, as shelter in place orders limited the demand and need for the use of contact lenses and related products as well as for aesthetic medical treatments. Additionally, government enforced lockdowns caused certain businesses to suspend operations, creating distribution and other logistic issues for the distribution of our products and the sourcing for a limited number of raw materials. These lockdowns began to ease during the fourth quarter of 2022. Our revenues in China for the six months ended June 30, 2023 and 2022 were $202 million and $177 million, respectively, an increase of $25 million. To date, we have dealt with these issues in China with only a minimal impact on our manufacturing and distribution processes and we continue to monitor the impact of COVID-19 on all aspects of our business.

For a further discussion of these and other COVID-19 related risks, see Item 1A. "Risk Factors — Risk Relating to COVID-19" of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC and the CSA on February 23, 2023.

Health Care Reform

The U.S. federal and state governments continue to propose and pass legislation designed to regulate the health care industry. Many of these changes focus on health care cost containment, which result in pricing pressures relating to the sales and reimbursements of healthcare products. The Biden Administration and Congress continue to focus on health care cost containment which could result in legislative and regulatory changes.

In addition, we continue to face various proposed health care pricing changes and regulations from governments throughout the world in locations in which we operate our business. These proposed changes may also continue to result in pricing pressures relating to sales, promotions and reimbursement of our product portfolio.

We continually review newly enacted and proposed U.S. federal and state legislation, as well as proposed rule-making and guidance published by the U.S. Department of Health and Human Services, the FDA, and applicable foreign governments in locations in which we operate; however, at this time, it is unclear the effect these matters may have on our businesses.

Generic Competition and Loss of Exclusivity

Certain of our products face the expiration of their patent or regulatory exclusivity in 2023 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 2023 or in later years. For example, during the second quarter of 2023, the

first generic competitor product for Uceris® Foam was introduced. Following a loss of exclusivity ("LOE") of and/or generic competition for a product, we would anticipate that product sales for such product would decrease significantly shortly following the LOE or entry of a generic competitor. Where we have the rights, we may elect to launch an authorized generic ("AG") 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.

2023 through 2027 LOE Branded Products - Based on current patent expiration dates, settlement agreements and/or competitive information, we have identified branded products that we believe could begin facing potential LOE and/or generic competition in the U.S. during the years 2023 through 2027. These products and year of expected LOE include, but are not limited to, Aplenzin® (2026), Bryhali® (2026), Noritate® (2023), Onexton® (2023), Prolensa® (2023) and Xerese® (2023). 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. We believe the entry into the market of generic competition generally would have an adverse impact on the volume and/or pricing of the affected products, however we are unable to predict the magnitude or timing of this impact.

In addition, for a number of our products (including Xifaxan® 550 mg, Arazlo®, Duobrii®, Trulance® and Lumify® in the U.S. and Jublia® in Canada), we have commenced (or anticipate commencing) and have (or may have) ongoing 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.

See Note 17, "LEGAL PROCEEDINGS" to our unaudited interim Condensed 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, 2022, filed with the SEC and the CSA on February 23, 2023 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 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.

See Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC and the CSA on February 23, 2023, for additional information on our competition risks.

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.

Through the date of this filing, all of our global operations and facilities have the relevant operational good manufacturing practices certificates and all Company products and all operating sites are in good compliance standing with all relevant notified bodies and global health authorities. Further, 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, which will be verified when the agency makes its next inspection of those specific facilities.

FINANCIAL PERFORMANCE HIGHLIGHTS

The following table provides selected unaudited financial information for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions, except per share data)	2023	2022	Change	2023	2022	Change
Revenues	$ 2,167	$ 1,967	$ 200	$ 4,111	$ 3,885	$ 226
Operating income	$ 412	$ 161	$ 251	$ 587	$ 446	$ 141
Income (loss) before income taxes	$ 79	$ (129)	$ 208	$ (57)	$ (211)	$ 154
Net income (loss) attributable to Bausch Health Companies Inc.	$ 26	$ (145)	$ 171	$ (175)	$ (214)	$ 39
Basic	$ 0.07	$ (0.40)	$ 0.47	$ (0.48)	$ (0.59)	$ 0.11
Diluted	$ 0.07	$ (0.40)	$ 0.47	$ (0.48)	$ (0.59)	$ 0.11

Financial Performance

Summary of the Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

Revenues for the three months ended June 30, 2023 and 2022 were $2,167 million and $1,967 million, respectively, an increase of $200 million, or 10%. The increase was primarily due to growth in the Bausch + Lomb, Salix, Solta Medical and International segments driven by higher volumes and improved net pricing, partially offset by: (i) lower volumes in our Diversified segment, (ii) the unfavorable impact of foreign currencies, primarily in Asia and Europe and (iii) the impact of divestitures and discontinuations.

Operating income for the three months ended June 30, 2023 and 2022 was $412 million and $161 million, respectively, and included non-cash charges for Depreciation and amortization of intangible assets of $315 million and $347 million, Goodwill impairments of $0 and $83 million, Asset impairments of $37 million and $6 million and Share-based compensation of $33 million and $26 million, respectively. The increase in our operating results of $251 million reflects, among other factors:

- an increase in contribution (Product sales revenue less Cost of goods sold, excluding amortization and impairments of intangible assets) of $130 million primarily due to the increase in revenues as previously discussed;
- an increase in selling, general and administrative ("SG&A") of $35 million primarily attributable to higher: (i) selling, advertising and promotion expenses, (ii) compensation and (iii) certain administrative expenses, partially offset by: (i) a decrease in separation-related costs and (ii) the favorable impact of foreign currencies;
- an increase in R&D expenses of $29 million primarily attributable to higher spend, primarily on certain Salix projects;
- a decrease in Amortization of intangible assets of $33 million primarily attributable to fully amortized intangible assets no longer being amortized in 2023;
- an increase in Asset impairments of $31 million during the three months ended June 30, 2023, primarily attributable to the launch of a generic competitor to Uceris® Foam; and
- a favorable change in Other (income) expense, net of $83 million, primarily attributable to: (i) insurance recoveries and (ii) adjustments to reflect changes in estimates of the liability for Acquisition-related contingent consideration.

Income before income taxes for the three months ended June 30, 2023, was $79 million as compared to a loss before income taxes of $129 million, for the three months ended June 30, 2022, an increase of $208 million. The increase is primarily attributable to: (i) the increase in our operating results of $251 million, as previously discussed and (ii) a decrease in interest expense of $91 million, partially offset by a decrease in Gain on extinguishment of debt of $113 million. The decrease in interest expense is primarily due to the impact of the accounting treatment for a portion of interest payments on the New Secured Notes, which reduced reported interest expense by $74 million relative to contractual interest cost.

Net income attributable to Bausch Health for the three months ended June 30, 2023 was $26 million and Net loss attributable to Bausch Health for the three months ended June 30, 2022 was $145 million, an increase of $171 million, due to: (i) the increase in our Income before income taxes of $208 million as previously discussed, and (ii) the decrease in Net income attributable to noncontrolling interest of $5 million and offset by an unfavorable change in income taxes of $42 million.

Summary of the Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

Revenues for the six months ended June 30, 2023 and 2022 were $4,111 million and $3,885 million, respectively, an increase of $226 million, or 6%. The increase was primarily due to growth in the Bausch + Lomb, Salix, Solta Medical and International segments driven by higher volumes and improved net pricing, partially offset by: (i) lower revenues in our Diversified segment, (ii) the unfavorable impact of foreign currencies, primarily in Europe and Asia and (iii) the impact of divestitures and discontinuations.

Operating income for the six months ended June 30, 2023 and 2022 was $587 million and $446 million, respectively, and included non-cash charges for Depreciation and amortization of intangible assets of $634 million and $699 million, Asset impairments of $50 million and $14 million, Goodwill impairments of $0 and $83 million and Share-based compensation of $74 million and $58 million, respectively. The increase in our operating results of $141 million reflects, among other factors:

- an increase in contribution of $125 million primarily due to the increase in revenues as previously discussed;
- an increase in SG&A of $138 million primarily attributable to higher: (i) selling, advertising and promotion expenses, (ii) compensation and (iii) certain administrative expenses, partially offset by: (i) a decrease in separation-related costs and (ii) the favorable impact of foreign currencies;
- an increase in R&D of $45 million primarily attributable to higher spend, primarily on certain Salix projects;
- a decrease in Amortization of intangible assets of $70 million primarily attributable to fully amortized intangible assets no longer being amortized in 2023;
- a decrease in Goodwill impairments of $83 million. Goodwill impairments associated with our Dermatology reporting unit were $83 million for the six months ended June 30, 2022;
- an increase in Asset impairments of $36 million during six months ended June 30, 2023, primarily attributable to the launch of a generic competition to Uceris® Foam;
- a decrease in Restructuring, integration, separation and IPO costs of $22 million; and
- a favorable change in Other (income) expense, net of $62 million primarily attributable to: (i) insurance recoveries and (ii) adjustments to reflect changes in estimates of the liability for Acquisition-related contingent consideration.

Loss before income taxes for the six months ended June 30, 2023 and 2022 was $57 million and $211 million, respectively, an increase in our results of $154 million. The increase is primarily attributable to: (i) a decrease in Interest expense of $146 million and (ii) the increase in our operating results of $141 million, as previously discussed, partially offset by: (i) a decrease in Gain on extinguishment of debt of $113 million and (ii) the unfavorable net change in Foreign exchange and other of $28 million. The decrease in interest expense is primarily due to the impact of the accounting treatment for a portion of interest payments on the New Secured Notes, which reduced reported interest expense by $148 million relative to contractual interest cost.

Net loss attributable to Bausch Health for the six months ended June 30, 2023 and 2022 was $175 million and $214 million, respectively, an increase in our results of $39 million. The increase in our results was primarily due to the increase in our Income before income taxes of $154 million, as previously discussed, partially offset by the unfavorable change in our provision for income taxes of $131 million.

RESULTS OF OPERATIONS

Our unaudited operating results for the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Revenues						
Product sales	$ 2,146	$ 1,944	$ 202	$ 4,068	$ 3,835	$ 233
Other revenues	21	23	(2)	43	50	(7)
	2,167	1,967	200	4,111	3,885	226
Expenses						
Cost of goods sold (excluding amortization and impairments of intangible assets)	640	568	72	1,212	1,104	108
Cost of other revenues	9	9	—	19	24	(5)
Selling, general and administrative	711	676	35	1,436	1,298	138
Research and development	156	127	29	299	254	45
Amortization of intangible assets	269	302	(33)	542	612	(70)
Goodwill impairments	—	83	(83)	—	83	(83)
Asset impairments	37	6	31	50	14	36
Restructuring, integration, separation and IPO costs	16	35	(19)	26	48	(22)
Other (income) expense, net	(83)	—	(83)	(60)	2	(62)
	1,755	1,806	(51)	3,524	3,439	85
Operating income	412	161	251	587	446	141
Interest income	7	3	4	13	5	8
Interest expense	(319)	(410)	91	(626)	(772)	146
Gain on extinguishment of debt	—	113	(113)	—	113	(113)
Foreign exchange and other	(21)	4	(25)	(31)	(3)	(28)
Income (loss) before income taxes	79	(129)	208	(57)	(211)	154
(Provision for) benefit from income taxes	(52)	(10)	(42)	(125)	6	(131)
Net income (loss)	27	(139)	166	(182)	(205)	23
Net (income) loss attributable to noncontrolling interest	(1)	(6)	5	7	(9)	16
Net income (loss) attributable to Bausch Health Companies Inc.	$ 26	$ (145)	$ 171	$ (175)	$ (214)	$ 39

Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

Revenues

The Company's revenues are primarily generated from product sales, primarily in the therapeutic areas of GI, hepatology, neurology, dermatology and eye health, 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 aesthetic medical devices). Other revenues include alliance and service revenue from the licensing and co-promotion of products and contract service revenue which is derived primarily from contract manufacturing for third parties and which is not material.

Our revenues were $2,167 million and $1,967 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $200 million, or 10%. The increase was primarily due to: (i) an increase in volumes of $145 million attributable to our Bausch + Lomb, Solta Medical, Salix and International segments, (ii) an increase in net realized pricing of $76 million primarily attributable to our Salix and Bausch + Lomb segments and (iii) incremental sales attributable to acquisitions of $2 million, partially offset by: (i) the unfavorable impact of foreign currencies of $17 million, primarily in Europe and Asia and (ii) the impact of divestitures and discontinuations of $6 million.

The changes in our segment revenues and segment profits for the three months ended June 30, 2023, are discussed in further detail in the respective subsequent section " — 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. As more fully discussed in Note 3, "REVENUE RECOGNITION" to our unaudited interim Condensed Consolidated Financial Statements, the Company continually monitors the provisions for these deductions and evaluates the estimates used as additional information becomes available. 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, 2023 and 2022 were as follows:

	Three Months Ended June 30,			
	2023		2022	
(in millions)	Amount	Pct.	Amount	Pct.
Gross product sales	$ 3,627	100.0 %	$ 3,398	100.0 %
Provisions to reduce gross product sales to net product sales				
Discounts and allowances	158	4.4 %	144	4.2 %
Returns	37	1.0 %	41	1.2 %
Rebates	700	19.3 %	655	19.3 %
Chargebacks	524	14.4 %	557	16.4 %
Distribution fees	62	1.7 %	57	1.7 %
Total provisions	1,481	40.8 %	1,454	42.8 %
Net product sales	2,146	59.2 %	1,944	57.2 %
Other revenues	21		23	
Revenues	$ 2,167		$ 1,967	

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 40.8% and 42.8% for the three months ended June 30, 2023 and 2022, respectively, a decrease of 2.0 percentage points due primarily to the following factors:

- discounts and allowances as a percentage of gross product sales were higher primarily due to an increase in gross product sales of certain branded products such as Xifaxan® and Trulance® and our branded authorized generic ("AG") Diastat® AG;
- returns as a percentage of gross product sales were lower as the Company continues to focus on maximizing operational efficiencies and actions to reduce product returns, including, but not limited to: (i) monitoring and reducing customer inventory levels, (ii) instituting disciplined pricing policies and (iii) improving contracting. These actions have had the effect of improving the sales return experience;
- rebates as a percentage of gross product sales were unchanged primarily due to an increase in gross product sales and higher rebate rates for certain branded products such as Xifaxan®, Trulance® and Jublia® and were offset by lower gross product sales for certain branded products such as Uceris® Tablets, Retin-A® Cream and Duobrii®;
- chargebacks as a percentage of gross product sales were lower primarily due to lower gross product sales of certain generic products such as Metronidazole and Nifediac and certain branded generics such as Clindagel® AG and Fenoglide® AG. These decreases were partially offset by: (i) higher chargeback rates for certain generics and

branded generics, (ii) increased volumes for our GI product Xifaxan® and (iii) increased gross product sales and higher chargeback rate for our neurology product Librax®; and

- distribution service fees as a percentage of gross product sales were unchanged as the impact of higher volumes for our GI products Xifaxan® and Trulance® was offset by the impact of lower volumes for certain of our dermatology products such as Retin-A® Cream and our GI product Uceris® Tablets. Price appreciation credits are offset against distribution service fees when due to wholesalers. There were no price appreciation credits for the three months ended June 30, 2023 and 2022.

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 typically vary between periods as a result of product mix, volume, royalties, changes in foreign currency and inflation. Cost of goods sold excludes the amortization and impairments of intangible assets.

Cost of goods sold was $640 million and $568 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $72 million, or 13%. The increase was primarily driven by: (i) the increase in volumes as previously discussed, and (ii) charges related to the Injector recall discussed below, partially offset by the favorable impact of foreign currencies.

Cost of goods sold as a percentage of product sales revenue were 29.8% and 29.2% for the three months ended June 30, 2023 and 2022, respectively, an increase of 0.6 percentage points. Cost of goods sold as a percentage of product sales revenue was unfavorably impacted by: (i) changes in product mix and (ii) inflationary pressures, partially offset by: (i) higher net realized pricing, as discussed above and (ii) the favorable impact of foreign currencies.

In May 2023 we initiated a voluntary recall in EMEA and Canada of our Emerade epinephrine auto-injectors (0.3 mg and 0.5 mg) (the "Injector") used to deliver an emergency treatment of epinephrine to patients who are at risk of serious allergic reactions (anaphylaxis). The recall resulted in inventory provisions of approximately $7 million, product return provisions of approximately $2 million and other costs of approximately $3 million. It is possible that additional charges may be incurred based on future developments associated with this voluntary recall.

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. The Company has incurred, and expects to continue to incur, incremental costs with respect to the B+L Separation. During 2022, the Company also incurred incremental costs indirectly related to the suspended Solta IPO. These separation-related and IPO-related costs include, but are not limited to: (i) IT infrastructure and software licensing costs, (ii) rebranding costs and (iii) costs associated with facility relocation and/or modification.

SG&A expenses were $711 million and $676 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $35 million, or 5%. The increase was primarily attributable to higher: (i) selling, advertising and promotion expenses, (ii) compensation and (iii) certain administrative expenses, due in part to incremental costs associated with the separation of certain functions in connection with the B+L Separation. These increases were partially offset by: (i) lower professional fees and (ii) the favorable impact of foreign currencies.

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 $156 million and $127 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $29 million, or 23%. The increase was primarily attributable to higher spend on certain Salix projects. R&D expenses as a percentage of Product sales were approximately 7% for each of the three months ended June 30, 2023 and 2022.

Amortization of Intangible Assets

Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives, generally 1 to 20 years. Management continually assesses the useful lives related to the Company's long-lived assets to reflect the most current assumptions.

Amortization of intangible assets was $269 million and $302 million for the three months ended June 30, 2023 and 2022, respectively, a decrease of $33 million. The decrease was primarily attributable to fully amortized intangible assets no longer being amortized in 2023.

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

Goodwill Impairments

Goodwill is not amortized but is tested for impairment at least annually on October 1st at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment. The Company performs its annual impairment test by first assessing qualitative factors. Where the qualitative assessment suggests that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative fair value test is performed for that reporting unit.

There were no goodwill impairments for the three months ended June 30, 2023. Goodwill impairments for the three months ended June 30, 2022, were $83 million.

During the three months ended June 30, 2022, increases in interest rates and, to a lesser extent, higher than expected inflation in the U.S. and other macroeconomic factors impacted key assumptions used to value the Dermatology reporting unit at March 31, 2022 (the last time goodwill of the Dermatology reporting unit was tested). Given the limited headroom of the Dermatology reporting unit as calculated on March 31, 2022, the Company believed that these facts and circumstances suggest the fair value of the Dermatology reporting unit could be less than its carrying amount, and therefore a quantitative fair value test was performed for the reporting unit.

The quantitative fair value test utilized the Company's then most recent cash flow projections as revised in the second quarter of 2022 which reflected current market conditions and current trends in business performance. Our latest discounted cash flow model for the Dermatology reporting unit included a range of potential outcomes for, among other matters, macroeconomic factors such as higher than expected inflation for many commodities, volatility in many of the equity markets and pressures on market interest rates. The quantitative fair value test utilized a long-term growth rate of 1% and a discount rate of 10%. The discount rate increased 1% since the assessment performed at March 31, 2022, as a result of changes in macroeconomic conditions, including an increase in the risk free rate during the three months ended June 30, 2022. Based on the quantitative fair value test, the carrying value of the Dermatology reporting unit exceeded its fair value at June 30, 2022, and we recognized a goodwill impairment of $83 million.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Condensed Consolidated Financial Statements for further details related to our goodwill.

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. Impairment charges associated with these assets are included in Asset impairments in the Condensed Consolidated Statements of Operations. 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. The Company estimates the fair values of long-lived assets with finite lives using an undiscounted cash flow model which utilizes Level 3 unobservable inputs. The undiscounted cash flow model relies on assumptions regarding revenue growth rates, gross profit, selling, general and administrative expenses and research and development expenses.

Asset impairments were $37 million and $6 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $31 million. Asset impairments for the three months ended June 30, 2023 of $37 million were primarily related to the impairment to the intangible assets associated with our Uceris® Foam product as discussed below. Asset impairments for the three months ended June 30, 2022 were $6 million and were primarily related to changes in forecasted revenue and production costs of a neurology product.

Uceris® Foam - On April 12, 2023, the FDA approved an ANDA submitted by a competitor, for a budesonide (a steroid (cortisone-like) medicine) foam to help treat mild to moderate active ulcerative colitis. This product is a generic version of our Uceris® Foam product. As of June 30, 2023, the carrying value of the Uceris® Foam product related intangible assets exceeded the undiscounted expected cash flows from the Uceris® Foam. As a result, the Company recognized an impairment of $37 million to reduce the carrying value of the Uceris® Foam product related intangible assets to their estimated fair value. As of June 30, 2023, the carrying value of the Uceris® Foam product related intangible assets was not material.

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

Restructuring, Integration, Separation and IPO Costs

Restructuring, integration, separation and IPO costs were $16 million and $35 million for the three months ended June 30, 2023 and 2022, respectively, a decrease of $19 million.

Restructuring and Integration Costs

The Company evaluates opportunities to improve its operating results and implement cost savings programs to streamline its operations and eliminate redundant processes and expenses. Restructuring and integration costs are expenses associated with the implementation of these cost savings programs and include expenses associated with: (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.

Restructuring and integration costs were $16 million and $22 million for the three months ended June 30, 2023 and 2022, respectively. 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.

Separation and IPO Costs

The Company has incurred, and expects to continue to incur costs associated with activities relating to the B+L Separation. In 2022, the Company also incurred costs associated with activities relating to the Solta IPO, which was suspended in June 2022. These B+L Separation and Solta IPO activities include: (i) separating the Bausch + Lomb and, in 2022, Solta Medical businesses from the remainder of the Company, (ii) completing the B+L IPO and, in 2022, preparing for the suspended Solta IPO and (iii) the actions necessary for Bausch + Lomb to become an independent publicly traded entity. Separation and IPO costs are incremental costs directly related to the ongoing B+L Separation and, in 2022, the suspended Solta IPO and include, but are not limited to: (i) legal, audit and advisory fees, (ii) talent acquisition costs and (iii) costs associated with establishing a new board of directors and related board committees for Bausch + Lomb. Separation and IPO costs were less than $1 million and $13 million for the three months ended June 30, 2023 and 2022, respectively. The extent and timing of future charges of these costs to complete the B+L Separation cannot be reasonably estimated at this time and could be material.

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

Other (Income) Expense, Net

Other (Income) Expense, Net for the three months ended June 30, 2023 and 2022 consists of the following:

	Three Months Ended June 30,	
(in millions)	**2023**	**2022**
Litigation and other matters	$ (71)	$ 8
Acquisition-related contingent consideration	(17)	(5)
Loss (Gain) on sale of assets, net	1	(3)
Acquired in-process research and development costs	—	1
Acquisition-related transaction costs	3	—
Other, Net	1	(1)
	$ (83)	$ —

For the three months ended June 30, 2023, Litigation and other matters primarily relates to insurance recoveries associated with certain legacy litigation matters.

As a result of revisions to an existing royalty agreement of certain branded products during the three months ended June 30, 2023, the Company has revised its long-term sales forecast for those products. Acquisition-related contingent consideration for the three months ended June 30, 2023, primarily includes adjustments to reflect the reduction in estimates of the future royalty payments related to those branded products.

Non-Operating Income and Expense

Interest Expense

Interest expense primarily consists of interest payments due, amortization and write-off of debt discounts, premiums and debt issuance costs under our credit facilities and notes as well as the amortization of amounts excluded from the assessment of hedge effectiveness over the term of the Company's cross-currency swaps.

Interest expense was $319 million and $410 million, and included non-cash amortization and write-offs of debt premiums, discounts and deferred issuance costs of $12 million and $50 million, for the three months ended June 30, 2023 and 2022, respectively. Interest expense for the three months ended June 30, 2023 decreased $91 million, or 22%, as compared to the three months ended June 30, 2022, primarily due to: (i) the accounting for contractual interest payments on the New Secured Notes, portions of which are recorded as a reduction of related premiums and not as interest expense, which had the impact of reducing interest expense by $74 million relative to contractual interest cost and (ii) the impact of lower outstanding debt balances in 2023 as compared to 2022, partially offset by higher interest rates.

The weighted average stated rate of interest as of June 30, 2023 and 2022 was 7.91% and 6.34%, respectively. The increase in the weighted average stated rate of interest of 157 bps is primarily attributable to the New Secured Notes and higher interest rates on our variable rate debt. Due to the accounting treatment for the New Secured Notes, interest expense in the Company's financial statements will not be representative of the weighted average stated rate of interest.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements and the section titled "— Liquidity and Capital Resources — Liquidity and Debt — Long-term Debt" for further details.

Gain on Extinguishment of Debt

Gain on extinguishment of debt represents the differences between the amounts paid to settle extinguished debts and the carrying value of the related extinguished debt. There was no gain on extinguishment of debt for the three months ended June 30, 2023. Gain on extinguishment of debt was $113 million for the three months ended June 30, 2022.

The gain on extinguishment of debt for the three months ended June 30, 2022 includes $176 million of gains associated with the early retirement of senior unsecured notes as discussed below, partially offset by $63 million of losses associated with the refinancing and modification to certain debt obligations completed in connection with the B+L IPO and represents the differences between the amounts paid to settle the extinguished debt and its carrying value.

During June 2022, through a series of transactions we repurchased and retired, outstanding senior unsecured notes with an aggregate par value of $481 million in the open market for approximately $300 million using: (i) the net proceeds from the partial exercise of the over-allotment option in the B+L IPO by the underwriters, after deducting underwriting commissions, (ii) amounts available under our revolving credit facility and (iii) cash on hand. The senior unsecured notes retired had maturities of January 2028 through February 2031 and had a weighted average interest rate of approximately 5.35%. As a result of these transactions, we recognized a gain on the extinguishment of debt of approximately $176 million, net of write-offs of debt premiums, discounts and deferred issuance costs, representing the differences between the amounts paid to retire the senior unsecured notes and their carrying value.

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

Foreign Exchange and Other

Foreign exchange and other primarily includes: (i) translation gains/losses on intercompany loans and third-party liabilities and (ii) the gain/loss due to foreign currency exchange contracts.

Foreign exchange and other was a loss of $21 million for the three months ended June 30, 2023, as compared to a gain of $4 million for the three months ended June 30, 2022, an unfavorable net change of $25 million, primarily due to: (i) translation gains/losses on intercompany loans and third-party liabilities and (ii) the gain/loss due to foreign currency exchange contracts.

Income Taxes

Provision for income taxes was $52 million and $10 million for the three months ended June 30, 2023 and 2022, respectively, an unfavorable change of $42 million.

Our effective income tax rate for the three months ended June 30, 2023 differs from the statutory Canadian income tax rate primarily due to: (i) the tax provision generated from our annualized mix of earnings by jurisdiction, (ii) the recording of valuation allowances on entities for which no tax benefit of losses is expected and (iii) the discrete treatment of certain tax matters, primarily related to changes in uncertain tax positions.

Our effective income tax rate for the three months ended June 30, 2022 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) adjustments for book to income tax return provisions, (b) a tax deduction for stock compensation and (c) changes in uncertain tax positions.

See Note 15, “INCOME TAXES” to our unaudited interim Condensed Consolidated Financial Statements for further details.

Reportable Segment Revenues and Profits

The following is a brief description of the Company’s segments:

- ***The Salix segment*** consists of sales in the U.S. of GI products. Sales of the Xifaxan® product line represented approximately 80% of the Salix segment’s revenues.
- ***The International segment*** consists of sales, with the exception of sales of Bausch + Lomb products and Solta Medical aesthetic medical devices, outside the U.S. and Puerto Rico of branded pharmaceutical products, branded generic pharmaceutical products and OTC products.
- ***The Solta Medical segment*** consists of global sales of Solta Medical aesthetic medical devices.
- ***The Diversified segment*** consists of sales in the U.S. of: (i) pharmaceutical products in the areas of neurology and certain other therapeutic classes, (ii) dermatology products, (iii) generic pharmaceutical products and (iv) dentistry products.
- ***The Bausch + Lomb segment*** consists of global sales of Bausch + Lomb Vision Care, Surgical and Pharmaceuticals products.

Segment profit is based on operating income after the elimination of intercompany transactions, including between Bausch + Lomb and other segments. Certain costs such as Amortization of intangible assets, Asset impairments, Goodwill impairments, Restructuring, integration, separation and IPO costs and Other (income) expense, net, are not included in the measure of segment profit, as management excludes these items in assessing segment financial performance. See Note 18, “SEGMENT INFORMATION” to our unaudited interim Condensed Consolidated Financial Statements for a reconciliation of segment profit to Income (loss) before income taxes.

The following table presents segment revenues, segment revenues as a percentage of total revenues, and the period-over-period changes in segment revenues for the three months ended June 30, 2023 and 2022. The following table also presents segment profits, segment profits as a percentage of segment revenues and the period-over-period changes in segment profits for the three months ended June 30, 2023 and 2022.

	Three Months Ended June 30,					
	2023		2022		Change	
(in millions)	Amount	Pct.	Amount	Pct.	Amount	Pct.
Segment Revenues						
Salix	$ 557	26 %	$ 501	25 %	$ 56	11 %
International	259	12 %	233	12 %	26	11 %
Solta Medical	88	4 %	57	3 %	31	54 %
Diversified	228	11 %	235	12 %	(7)	(3)%
Bausch + Lomb	1,035	47 %	941	48 %	94	10 %
Total revenues	$ 2,167	100 %	$ 1,967	100 %	$ 200	10 %
Segment Profits / Segment Profit Margins						
Salix	$ 386	69 %	$ 354	71 %	$ 32	9 %
International	68	26 %	66	28 %	2	3 %
Solta Medical	45	51 %	20	35 %	25	125 %
Diversified	138	61 %	141	60 %	(3)	(2)%
Bausch + Lomb	244	24 %	208	22 %	36	17 %
Total segment profits	$ 881	41 %	$ 789	40 %	$ 92	12 %

Organic Revenues and Organic Growth Rates (non-GAAP)

Organic revenue and organic revenue change are non-GAAP measures. Non-GAAP measures are not standardized measures under the financial reporting framework used to prepare the Company's financial statements and might not be comparable to similar financial measures disclosed by other issuers.

Organic revenue (non-GAAP) and change in organic revenue (non-GAAP), are defined as GAAP Revenue and change in GAAP revenue (the most directly comparable GAAP financial measures), adjusted for changes in foreign currency exchange rates (if applicable) and excluding the impact of recent acquisitions, divestitures and discontinuations, as defined below. Organic revenue (non-GAAP) is impacted by changes in product volumes and price. The price component is made up of two key drivers: (i) changes in product gross selling price and (ii) changes in sales deductions. The Company uses organic revenue (non-GAAP) and change in organic revenue (non-GAAP) to assess performance of its reportable segments, and the Company in total. The Company believes that providing these measures is useful to investors as they provide a supplemental period-to-period comparison.

The adjustments to GAAP Revenue and changes in GAAP revenue to determine organic revenue (non-GAAP) and changes in organic revenue (non-GAAP) are 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 business. The impact of 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 revenue (non-GAAP) growth/change 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 and organic growth/change exclude from the current period, 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 and change in organic revenue exclude from the prior 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.

The following table presents a reconciliation of GAAP revenues to organic revenues (non-GAAP) and the period-over-period changes in organic revenue (non-GAAP) for the three months ended June 30, 2023 and 2022 by segment.

	Three Months Ended June 30, 2023				Three Months Ended June 30, 2022			Change in Organic Revenue (Non-GAAP)	
(in millions)	Revenue as Reported	Changes in Exchange Rates	Acquisitions	Organic Revenue (Non-GAAP)	Revenue as Reported	Divestitures and Discontinuations	Organic Revenue (Non-GAAP)	Amount	Pct.
Salix	$ 557	$ —	$ —	$ 557	$ 501	$ —	$ 501	$ 56	11 %
International	259	(4)	—	255	233	(4)	229	26	11 %
Solta Medical	88	3	—	91	57	—	57	34	60 %
Diversified	228	—	—	228	235	—	235	(7)	(3)%
Bausch + Lomb	1,035	18	(2)	1,051	941	(2)	939	112	12 %
Total	$ 2,167	$ 17	$ (2)	$ 2,182	$ 1,967	$ (6)	$ 1,961	$ 221	11 %

Salix Segment:

Salix Segment Revenue

The Salix segment includes our Xifaxan® product line. Revenues from our Xifaxan® product line accounted for approximately 80% of the Salix segment revenues for each of the three months ended June 30, 2023 and 2022. No other single product group represents 10% or more of the Salix segment product sales. Salix segment revenue for the three months ended June 30, 2023 and 2022 was $557 million and $501 million, respectively, an increase of $56 million, or 11%. The increase is primarily attributable to increases in: (i) in net realized pricing of $30 million and (ii) volumes of $26 million, primarily driven by Xifaxan®.

Salix Segment Profit

The Salix segment profit for the three months ended June 30, 2023 and 2022 was $386 million and $354 million, respectively, an increase of $32 million, or 9%. The increase was primarily driven by an increase in contribution attributable to the increase in revenues, as previously discussed, partially offset by higher: (i) R&D expenses, including for our global RED-C program, as previously discussed, (ii) advertising and promotion primarily due to increased Xifaxan® investments and (iii) selling expenses.

International Segment:

International Segment Revenue

The International segment has a diversified product line with no single product group representing 10% or more of its product sales. The International segment revenue was $259 million and $233 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $26 million, or 11%. The increase was primarily attributable to: (i) an increase in volumes of $16 million, (ii) an increase in net realized pricing of $10 million and (iii) the favorable impact of foreign currencies of $4 million, partially offset by the impact of divestitures and discontinuations of $4 million. Revenues for the three months ended June 30, 2022, also reflect charges of $11 million representing a change in the estimated future returns in one market, driven by lower estimated demand following the easing of local COVID-19 lockdown restrictions as well as a change in distributors.

International Segment Profit

The International segment profit for the three months ended June 30, 2023 and 2022 was $68 million and $66 million, respectively, an increase of $2 million, or 3%. The increase was primarily driven by an increase in contribution attributable to the increase in revenues, as previously discussed, partially offset by higher manufacturing variances.

Solta Medical Segment:

Solta Medical Segment Revenue

The Solta Medical segment includes the Thermage® product line, which accounted for approximately 83% and 70% of the Solta Medical segment revenues for the three months ended June 30, 2023 and 2022, respectively. The Solta Medical segment revenue for the three months ended June 30, 2023 and 2022 was $88 million and $57 million, respectively, an increase of $31 million, or 54%. The increase was primarily attributable to: (i) an increase in volumes of $32 million and (ii) an increase in net realized pricing of $2 million, partially offset by the unfavorable impact of foreign currencies of $3 million. The increase in volumes is attributable in part to the impact of the COVID-19 pandemic restrictions in China for the three months ended June 30, 2022, on our revenues for the Asia-Pacific region.

Solta Medical Segment Profit

The Solta Medical segment profit for the three months ended June 30, 2023 and 2022 was $45 million and $20 million, respectively, an increase of $25 million, or 125%. The increase was primarily attributable to the increase in contribution attributable to the increase in revenues, as previously discussed.

Diversified Segment:

Diversified Segment Revenue

The Diversified segment revenue for the three months ended June 30, 2023 and 2022 was $228 million and $235 million, respectively, a decrease of $7 million, or 3%. The decrease was primarily driven by decreases in volumes of $13 million, primarily in our Neurology and other businesses, partially offset by increased net realized pricing of $6 million, in our Dermatology and Neurology and other businesses.

Diversified Segment Profit

The Diversified segment profit for the three months ended June 30, 2023 and 2022 was $138 million and $141 million, respectively, a decrease of $3 million, or 2%. The decrease was primarily driven by lower contribution attributable to the net decrease in revenues, as previously discussed, partially offset by lower advertising and promotion expenses.

Bausch + Lomb Segment:

Bausch + Lomb Segment Revenue

The Bausch + Lomb segment revenue was $1,035 million and $941 million for the three months ended June 30, 2023 and 2022, respectively, an increase of $94 million, or 10%. The increase was attributable to: (i) an increase in volumes of $84 million, across the Bausch + Lomb businesses, (ii) net realized pricing of $28 million primarily driven by the Vision Care business and (iii) incremental sales attributable to acquisitions of $2 million within the Surgical business, partially offset by: (i) the unfavorable impact of foreign currencies of $18 million, primarily in Asia and Europe and (ii) the impact of divestitures and discontinuations of $2 million.

Bausch + Lomb Segment Profit

The Bausch + Lomb segment profit for the three months ended June 30, 2023 and 2022 was $244 million and $208 million, respectively, an increase of $36 million, or 17%. The increase was primarily driven by higher contribution, attributable to the increase in volume and pricing, as previously discussed, partially offset by an increase in selling expenses primarily attributable to increased headcount and distribution costs, and higher advertising and promotional expenses.

Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

Revenues

Our revenue was $4,111 million and $3,885 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $226 million, or 6%. The increase was primarily due to: (i) an increase in volumes of $222 million attributable to our Bausch + Lomb, Salix, Solta Medical and International segments, (ii) an increase in net realized pricing of $68 million in the Bausch + Lomb, International, Salix and Solta Medical segments and (iii) incremental sales attributable to acquisitions of $4 million, partially offset by: (i) the unfavorable impact of foreign currencies of $57 million, primarily in Asia and Europe and (ii) the impact of divestitures and discontinuations of $11 million.

The changes in our segment revenues and segment profits for the six months ended June 30, 2023, are discussed in further detail in the respective subsequent section " — 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, 2023 and 2022 were as follows:

	Six Months Ended June 30,			
	2023		2022	
(in millions)	Amount	Pct.	Amount	Pct.
Gross product sales	$ 6,920	100.0 %	$ 6,545	100.0 %
Provisions to reduce gross product sales to net product sales				
Discounts and allowances	297	4.3 %	278	4.2 %
Returns	79	1.1 %	60	0.9 %
Rebates	1,364	19.7 %	1,236	18.9 %
Chargebacks	989	14.3 %	1,028	15.7 %
Distribution fees	123	1.8 %	108	1.7 %
Total provisions	2,852	41.2 %	2,710	41.4 %
Net product sales	4,068	58.8 %	3,835	58.6 %
Other revenues	43		50	
Revenues	$ 4,111		$ 3,885	

Cash discounts and allowances, returns, rebates, chargebacks and distribution fees as a percentage of gross product sales were 41.2% and 41.4% for the six months ended June 30, 2023 and 2022, respectively, a decrease of 0.2 percentage points and includes:

- discounts and allowances as a percentage of gross product sales were higher primarily due to increases in gross product sales of certain branded products such as Xifaxan® and Trulance® and our branded generic Diastat® AG;
- returns were higher primarily due to reductions in the estimates of variable consideration for sales returns related to past sales in 2022. The Company continues to focus on maximizing operational efficiencies and actions to reduce product returns, including, but not limited to: (i) monitoring and reducing customer inventory levels, (ii) instituting disciplined pricing policies and (iii) improving contracting. These actions have had the effect of improving the sales return experience;
- rebates as a percentage of gross product sales were higher primarily due to an increase in gross product sales and higher rebate rates for certain branded products such as Xifaxan®, Trulance®, Jublia® and Arazlo®, partially offset by lower gross product sales for certain branded products such as Retin-A® Microsphere .06%, Retin-A® Cream and Retin-A® Microsphere .08%;
- chargebacks as a percentage of gross product sales were lower primarily due to lower gross product sales of certain generic products such as Nifediac and certain branded generics such as Apriso® AG, Targretin® AG, Syprine® AG and Cuprimine® AG. These decreases were partially offset by: (i) increased gross product sales of our GI products Xifaxan® and Glumetza® SLX and (ii) higher chargeback rates for certain generics and branded generics; and
- distribution service fees as a percentage of gross product sales were higher primarily due to higher gross product sales of certain branded products such as Xifaxan® and Trulance®. Price appreciation credits are offset against distribution service fees when due to wholesalers. There were no price appreciation credits for the six months ended June 30, 2023 and 2022.

Expenses

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

Cost of goods sold was $1,212 million and $1,104 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $108 million, or 10%. The increase was primarily driven by: (i) the increase in volumes as previously discussed, and (ii) charges related to the Injector recall, as previously discussed, partially offset by: (i) lower unfavorable manufacturing variances and (ii) the favorable impact of foreign currencies.

Cost of goods sold as a percentage of product sales revenue was 29.8% and 28.8% for the six months ended June 30, 2023 and 2022, respectively, an increase of 1.0 percentage points. Costs of goods sold as a percentage of Product sales

revenue was unfavorably impacted by: (i) changes in product mix and (ii) inflationary pressures, partially offset by higher net realized pricing, as discussed above.

Selling, General and Administrative Expenses

SG&A expenses were $1,436 million and $1,298 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $138 million, or 11%. The increase was primarily attributable to higher: (i) selling, advertising and promotion expenses, (ii) compensation and (iii) certain administrative expenses, due in part to incremental costs associated with the separation of certain functions in connection with the B+L Separation. These increases were partially offset by: (i) lower professional fees and (ii) the favorable impact of foreign currencies.

Research and Development

R&D expenses were $299 million and $254 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $45 million, or 18%. R&D expenses as a percentage of Product sales were approximately 7% for each of the six months ended June 30, 2023 and 2022. The increase was primarily due to higher spend on certain Salix projects.

Amortization of Intangible Assets

Amortization of intangible assets was $542 million and $612 million for the six months ended June 30, 2023 and 2022, respectively, a decrease of $70 million, or 11%. The decrease was primarily attributable to fully amortized intangible assets no longer being amortized in 2023.

See Note 8, “INTANGIBLE ASSETS AND GOODWILL” to our unaudited interim Condensed Consolidated Financial Statements for further details related to our intangible assets.

Goodwill Impairments

There were no goodwill impairments for the six months ended June 30, 2023. Goodwill impairments for the six months ended June 30, 2022, were $83 million.

As previously discussed, the Company believed that increases in interest rates and other macroeconomic factors during the three months ended June 30, 2022, impacted key assumptions used to value the Dermatology reporting unit at March 31, 2022 (the last time goodwill of the Dermatology reporting unit was tested) and therefore the Company performed a quantitative fair value test for the reporting unit. Based on the quantitative fair value test, the carrying value of the Dermatology reporting unit exceeded its fair value at June 30, 2022, and we recognized a goodwill impairment of $83 million.

See Note 8, “INTANGIBLE ASSETS AND GOODWILL” to our unaudited interim Condensed Consolidated Financial Statements for further details related to our goodwill.

Asset impairments

Asset impairments were $50 million and $14 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $36 million. Asset impairments for the six months ended June 30, 2023 includes: (i) impairments of $37 million to the intangible assets associated with Uceris® Foam product related intangible assets, as previously discussed, (ii) impairments of $8 million, in aggregate, attributable to certain trade names no longer in use and (iii) impairments of $5 million, in aggregate, related to the discontinuance of certain product lines.

Asset impairments for the six months ended June 30, 2022 include: (i) impairments of $10 million, in aggregate, due to decreases in forecasted sales of certain product lines and (ii) impairments of $4 million, in aggregate, related to the discontinuance of certain product lines.

See Note 8, “INTANGIBLE ASSETS AND GOODWILL” to our unaudited interim Condensed Consolidated Financial Statements for further details related to our intangible assets.

Restructuring, Integration, Separation and IPO Costs

Restructuring, integration, separation and IPO costs were $26 million and $48 million for the six months ended June 30, 2023 and 2022, respectively, a decrease of $22 million.

Restructuring and Integration Costs

Restructuring and integration costs were $25 million for each of the six months ended June 30, 2023 and 2022. 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.

Separation and IPO Costs

Separation and IPO costs were $1 million and $23 million for the six months ended June 30, 2023 and 2022, respectively. The extent and timing of future charges of these costs to complete the B+L Separation cannot be reasonably estimated at this time and could be material.

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

Other (Income) Expense, Net

Other (income) expense, net for the six months ended June 30, 2023 and 2022 consists of the following:

	Six Months Ended June 30,	
(in millions)	**2023**	**2022**
Litigation and other matters	$ (79)	$ 7
Acquisition-related contingent consideration	14	(2)
Loss (Gain) on sale of assets, net	1	(3)
Acquired in-process research and development costs	—	1
Acquisition-related transaction costs	3	—
Other, Net	1	(1)
	$ (60)	$ 2

For the six months ended June 30, 2023, the Litigation and other matters primarily relates to insurance recoveries associated with certain legacy litigation matters.

As a result of revisions to an existing royalty agreement of certain branded products during the six months ended June 30, 2023, the Company has revised its long-term sales forecast for those products. Acquisition-related contingent consideration for the six months ended June 30, 2023, primarily includes adjustments to reflect the reduction in estimates of the future royalty payments related to those branded products.

Non-Operating Income and Expense

Interest Expense

Interest expense was $626 million and $772 million and included non-cash amortization and write-offs of debt premiums, discounts and deferred issuance costs of $23 million and $64 million for the six months ended June 30, 2023 and 2022, respectively. Interest expense decreased $146 million, or 19%, primarily due to: (i) the accounting for contractual interest payments on the New Secured Notes, portions of which are recorded as a reduction of related premiums and not as interest expense, which had the impact of reducing interest expense by $148 million relative to contractual interest cost and (ii) the impact of lower outstanding debt balances in 2023 as compared to 2022, partially offset by higher interest rates.

The weighted average stated rate of interest as of June 30, 2023 and 2022 was 7.91% and 6.34%, respectively. The increase in the weighted average stated rate of interest of 157 bps is primarily attributable to the New Secured Notes and higher interest rates on our variable rate debt. Due to the accounting treatment for the New Secured Notes, interest expense in the Company's financial statements will not be representative of the weighted average stated rate of interest.

Gain on Extinguishment of Debt

The gain on extinguishment of debt was $0 and $113 million for the six months ended June 30, 2023 and 2022, respectively.

The gain on extinguishment of debt for the six months ended June 30, 2022 includes $176 million of gains associated with the early retirement of senior unsecured notes as previously discussed, partially offset by $63 million of losses associated with the refinancing and modification to certain debt obligations completed in connection with the B+L IPO and represents the differences between the amounts paid to settle the extinguished debt and its carrying value.

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

Foreign Exchange and Other

Foreign exchange and other was a loss of $31 million and $3 million for the six months ended June 30, 2023 and 2022, respectively, an unfavorable net change of $28 million, primarily due to: (i) translation gains/losses on intercompany loans and third-party liabilities and (ii) the gain/loss due to foreign currency exchange contracts.

Income Taxes

Provision for income taxes was $125 million for the six months ended June 30, 2023 as compared to a Benefit from income taxes of $6 million for the six months ended June 30, 2022, an unfavorable change of $131 million. Our effective income tax rate for the six months ended June 30, 2023 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 provision generated from our annualized mix of earnings by jurisdiction and (iii) the discrete treatment of certain tax matters, primarily related to: (a) final and potential settlements of various tax audits accrued in the six months ended June 30, 2023, (b) changes in uncertain tax positions, (c) income tax expense associated with the establishment of a valuation allowance against deferred tax assets of B+L's Canadian parent and (d) income tax expense associated with stock compensation.

Our effective income tax rate for the six months ended June 30, 2022 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) changes in uncertain tax positions, (b) adjustments for book to income tax return provisions and (c) a tax deduction for stock compensation.

See Note 15, "INCOME TAXES" to our unaudited interim Condensed 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, 2023 and 2022. 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, 2023 and 2022.

	Six Months Ended June 30,					
	2023		2022		Change	
(in millions)	Amount	Pct.	Amount	Pct.	Amount	Pct.
Segment Revenues						
Salix	$ 1,053	26 %	$ 965	25 %	$ 88	9 %
International	506	12 %	477	12 %	29	6 %
Solta Medical	161	4 %	129	3 %	32	25 %
Diversified	425	10 %	484	13 %	(59)	(12)%
Bausch + Lomb	1,966	48 %	1,830	47 %	136	7 %
Total revenues	$ 4,111	100 %	$ 3,885	100 %	$ 226	6 %
Segment Profits / Segment Profit Margins						
Salix	$ 700	66 %	$ 676	70 %	$ 24	4 %
International	145	29 %	157	33 %	(12)	(8)%
Solta Medical	81	50 %	55	43 %	26	47 %
Diversified	245	58 %	299	62 %	(54)	(18)%
Bausch + Lomb	455	23 %	414	23 %	41	10 %
Total segment profits	$ 1,626	40 %	$ 1,601	41 %	$ 25	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, 2023 and 2022 by segment. Organic revenues (non-GAAP) and organic growth (non-GAAP) rates are defined in the previous section titled "Reportable Segment Revenues and Profits".

	Six Months Ended June 30, 2023				Six Months Ended June 30, 2022			Change in Organic Revenue (Non-GAAP)	
(in millions)	Revenue as Reported	Changes in Exchange Rates	Acquisitions	Organic Revenue (Non-GAAP)	Revenue as Reported	Divestitures and Discontinuations	Organic Revenue (Non-GAAP)	Amount	Pct.
Salix	$ 1,053	$ —	$ —	$ 1,053	$ 965	$ —	$ 965	$ 88	9 %
International	506	2	—	508	477	(7)	470	38	8 %
Solta Medical	161	6	—	167	129	—	129	38	29 %
Diversified	425	—	—	425	484	—	484	(59)	(12)%
Bausch + Lomb	1,966	49	(4)	2,011	1,830	(4)	1,826	185	10 %
Total	$ 4,111	$ 57	$ (4)	$ 4,164	$ 3,885	$ (11)	$ 3,874	$ 290	7 %

Salix Segment:

Salix Segment Revenue

The Salix segment includes the Xifaxan® product line. Revenues from our Xifaxan® product line accounted for approximately 80% of the Salix segment revenues for each of the six months ended June 30, 2023 and 2022. 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, 2023 and 2022 was $1,053 million and $965 million, respectively, an increase of $88 million, or 9%. The increase was primarily attributable to increases in: (i) volumes of $75 million, primarily driven by Xifaxan® and (ii) net realized pricing of $13 million.

Salix Segment Profit

The Salix segment profit for the six months ended June 30, 2023 and 2022 was $700 million and $676 million, respectively, an increase of $24 million, or 4%. The increase was primarily driven by an increase in contribution attributable to the increase in revenues, as previously discussed, partially offset by higher: (i) R&D expenses, including for our global RED-C program, as previously discussed, (ii) advertising and promotion primarily due to increased Xifaxan® investments and (iii) selling expenses.

International Segment:

International Segment Revenue

The International segment has a diversified product line with no single product group representing 10% or more of its product sales. The International segment revenue was $506 million and $477 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $29 million, or 6%. The increase was primarily attributable to: (i) an increase in net realized pricing of $21 million and (ii) an increase in volumes of $17 million, partially offset by: (i) the impact of divestitures and discontinuations of $7 million and (ii) the unfavorable impact of foreign currencies of $2 million, primarily in Canada and Europe. Revenues for the six months ended June 30, 2022, also reflect charges of $11 million representing a change in estimated future returns in one market, driven by lower estimated demand following the easing of local COVID-19 lockdown restrictions as well as a change in distributors.

International Segment Profit

The International segment profit for the six months ended June 30, 2023 and 2022 was $145 million and $157 million, respectively, a decrease of $12 million, or 8%. The decrease was primarily attributable to an increase in: (i) General and administrative expenses and (ii) advertising and promotion expenses.

Solta Medical Segment:

Solta Medical Segment Revenue

The Solta Medical segment includes the Thermage® product line, which accounted for approximately 81% and 73% of the Solta Medical segment revenues for the six months ended June 30, 2023 and 2022, respectively. No other single product group represents 10% or more of the Solta Medical segment revenues. The Solta Medical segment revenue for the six months ended June 30, 2023 and 2022 was $161 million and $129 million, respectively, an increase of $32 million, or 25%. The increase was attributable to: (i) an increase in volumes of $36 million and (ii) an increase in net realized pricing of $2 million, partially offset by the unfavorable impact of foreign currencies of $6 million. The increase in volumes is attributable in part

to the impact of the COVID-19 pandemic restrictions in China for the six months ended June 30, 2022, on our revenues for the Asia-Pacific region.

Solta Medical Segment Profit

The Solta Medical segment profit for the six months ended June 30, 2023 and 2022 was $81 million and $55 million, respectively, an increase of $26 million, or 47%. The increase is attributable to the increase in revenues, as previously discussed.

Diversified Segment:

Diversified Segment Revenue

The Diversified segment revenue for the six months ended June 30, 2023 and 2022 was $425 million and $484 million, respectively, a decrease of $59 million, or 12%. The decrease was primarily driven by decreases in: (i) volumes of $32 million, primarily in our Neurology and other business and (ii) net realized pricing of $27 million, across all our Diversified businesses.

Diversified Segment Profit

The Diversified segment profit for the six months ended June 30, 2023 and 2022 was $245 million and $299 million, respectively, a decrease of $54 million, or 18% and was primarily driven by lower contribution attributable to the net decrease in revenues, as previously discussed, partially offset by lower advertising and promotion expenses.

Bausch + Lomb Segment:

Bausch + Lomb Segment Revenue

The Bausch + Lomb segment revenue was $1,966 million and $1,830 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $136 million, or 7.0%. The increase was primarily attributable to: (i) an increase in volumes across the Bausch + Lomb businesses of $126 million, (ii) an increase in net realized pricing of $59 million, primarily driven by the Vision Care business and (iii) incremental sales attributable to acquisitions of $4 million within the Surgical business. The increase in revenue was partially offset by: (i) the unfavorable impact of foreign currencies of $49 million, primarily in Europe and Asia and (ii) the impact of divestitures and discontinuations of $4 million.

Bausch + Lomb Segment Profit

The Bausch + Lomb segment profit for the six months ended June 30, 2023 and 2022 was $455 million and $414 million, respectively, an increase of $41 million, or 10%. The increase was primarily driven by higher contribution, attributable to the increase in revenues, as previously discussed, partially offset by: (i) increased cost of goods sold, driven by inflationary pressures and higher manufacturing ramp-up costs of Daily SiHy lenses, (ii) selling expenses attributable to increased headcount and distribution costs and (iii) higher advertising and promotional expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

(in millions)	Six Months Ended June 30, 2023	2022	Change
Net loss	$ (182)	$ (205)	$ 23
Adjustments to reconcile net loss to net cash provided by operating activities	806	370	436
Cash provided by operating activities before changes in operating assets and liabilities	624	165	459
Changes in operating assets and liabilities	(264)	(105)	(159)
Net cash provided by operating activities	360	60	300
Net cash used in investing activities	(108)	(114)	6
Net cash used in financing activities	(262)	(162)	(100)
Effect of exchange rate changes on cash, cash equivalents and other	7	(24)	31
Net decrease in cash, cash equivalents, restricted cash and other settlement deposits	(3)	(240)	237
Cash, cash equivalents, restricted cash and other settlement deposits, beginning of period	591	2,119	(1,528)
Cash, cash equivalents, restricted cash and other settlement deposits, end of period	$ 588	$ 1,879	$ (1,291)

Operating Activities

Net cash provided by operating activities was $360 million and $60 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $300 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 reduction in cash from Changes in operating assets and liabilities.

Cash provided by operating activities before changes in operating assets and liabilities was $624 million and $165 million for the six months ended June 30, 2023 and 2022, respectively, an increase of $459 million. The increase is primarily attributable to: (i) a decrease in payments of accrued legal settlements related to the Glumetza Antitrust Litigation paid during 2022, (ii) insurance recoveries regarding certain legacy litigation matters in 2023, (iii) changes in business performance and (iv) lower payments of interest included in Operating activities as, due to the accounting treatment for the Exchange Offer, the portion of contractual interest payments on the New Secured Notes which reduce the premium on the New Secured Notes is reported as a Financing activity. During the six months ended June 30, 2023, contractual interest payments on the New Secured Notes allocated to the reduction of the recorded premium were $134 million and are included in Cash flows from financing activities.

Changes in operating assets and liabilities resulted in a net decrease in cash of $264 million for the six months ended June 30, 2023, as compared to $105 million for the six months ended June 30, 2022, a decrease of $159 million. During the six months ended June 30, 2023, Changes in operating assets and liabilities were negatively impacted by: (i) a decrease in inventories of $160 million and (ii) the timing of other payments in the ordinary course of business of $159 million, partially offset by the timing of collection of trade receivables of $55 million. During the six months ended June 30, 2022, Changes in operating assets and liabilities was positively impacted by: (i) an increase in inventories of $138 million and (ii) the timing of other payments in the ordinary course of business of $74 million, partially offset by the collection of trade receivables of $107 million.

Investing Activities

Net cash used in investing activities was $108 million for the six months ended June 30, 2023 and was primarily driven by Purchases of property, plant and equipment of $75 million and acquisitions and other investments of $31 million.

Net cash used in investing activities was $114 million for the six months ended June 30, 2022 and was primarily driven by Purchases of property, plant and equipment of $98 million.

Financing Activities

Net cash used in financing activities was $262 million for the six months ended June 30, 2023 and was primarily driven by the repayment of long-term debt of $690 million which includes: (i) the repayment of $480 million of amounts outstanding under our 2027 Revolving Credit Facility, (ii) the $134 million of contractual interest payments on the New Secured Notes allocated to the reduction of the recorded premiums, as discussed above, and (iii) payments of $75 million on

the Term Loan B Facilities, partially offset by draws of $455 million under the 2027 Revolving Credit Facility and the B+L Revolving Credit Facility.

Net cash used in financing activities was $162 million for the six months ended June 30, 2022 and was primarily driven by: (i) the issuance of long-term debt, net of discounts, of $6,320 million related to the February 2027 Secured Notes, 2027 Term Loan B Facility, draws on the 2027 Revolving Credit Facility and the B+L Term Loan Facility and (ii) net proceeds from the B+L IPO of $675 million, partially offset by the repayment of long-term debt of $7,083 million related to: (i) the repayment of the outstanding balance under our 2023 Revolving Credit Facility, (ii) the repayment of the outstanding balance of our 6.125% Senior Unsecured Notes, (iii) the repayment of the outstanding balances under our 2025 Term Loan B Facilities and (iv) the repurchase and retirement of certain outstanding Senior Secured Notes in the open market with an aggregate par value of $481 million for approximately $300 million.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements for additional information regarding the financing activities described above, including the definitions of certain defined terms used 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 and AR Credit Facility, issuances of long-term debt and issuances of equity or equity-linked securities. We believe these sources will be sufficient to meet our current liquidity needs for at least the twelve months following the issuance of this Form 10-Q.

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, repurchase or exchange existing debt or issue equity or equity-linked securities.

Cash, cash equivalents and restricted cash as presented in the Condensed Consolidated Balance Sheet as of June 30, 2023 includes $392 million of cash, cash equivalents and restricted cash held by legal entities of Bausch + Lomb. Cash held by Bausch + Lomb legal entities and any future cash from the operating, investing and financing activities of Bausch + Lomb is expected to be retained by Bausch + Lomb entities and are generally not available to support the operations, investing and financing activities of other legal entities, including Bausch Health unless paid as a dividend which would be determined by the Board of Directors of Bausch + Lomb and paid pro rata to Bausch + Lomb's shareholders.

Long-term Debt

Long-term debt, net of unamortized premiums, discounts and issuance costs was $20,552 million and $20,766 million as of June 30, 2023 and December 31, 2022, respectively. Aggregate contractual principal amounts due under our debt obligations were $19,010 million and $19,110 million as of June 30, 2023 and December 31, 2022, respectively, a decrease of $100 million.

See Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements for additional information regarding long term debt.

Accounting for the Exchange Offer

The Company performed an assessment of the Exchange Offer and determined that it met the criteria to be accounted for as a troubled debt restructuring under Accounting Standards Codification 470-60. As a result of the application of this accounting, the difference between the principal amount of the New Secured Notes and their carrying value was recorded as a premium and is included in long-term debt on the Company's Condensed Consolidated Balance Sheet.

The original premium recorded on the New Secured Notes was $1,835 million, which will be reduced as contractual interest payments are made on the New Secured Notes. The portion of each contractual interest payment allocated to reduce the recorded premium is determined as the difference between the payment due and the calculated interest at the effective interest rate of the underlying carry amount of the associated note. During the six months ended June 30, 2023, the Company made contractual interest payments of $155 million related to the New Secured Notes, of which $134 million was recorded as a reduction of the recorded premium.

The following table presents the future scheduled contractual interest payments of the New Secured Notes. Contractual interest payments will be allocated to the reduction of the recorded premium and interest expense as presented below. The amount of interest which reduces the recorded premium will be reported as a financing activity in the Condensed Consolidated Statements of Cash Flows.

(in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Interest payments:							
11.00% First Lien Secured Notes due 2028	$ 98	$ 195	$ 195	$ 195	$ 195	$ 195	$ 1,073
14.00% Second Lien Secured Notes due 2030	25	49	49	49	49	149	370
9.00% Intermediate Holdco Secured Notes due 2028	45	90	90	90	90	45	450
	$ 168	$ 334	$ 334	$ 334	$ 334	$ 389	$ 1,893
Interest payments recorded as:							
Interest expense	$ 20	$ 39	$ 36	$ 34	$ 31	$ 32	$ 192
Reduction of recorded premium	148	295	298	300	303	357	1,701
	$ 168	$ 334	$ 334	$ 334	$ 334	$ 389	$ 1,893

Senior Unsecured Notes

The Senior Unsecured Notes (as defined in Note 10, "FINANCING ARRANGEMENTS" to our unaudited interim Condensed Consolidated Financial Statements) 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 2022 Amended Credit Agreement. 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 2022 Amended Credit Agreement. Future subsidiaries of the Company and BHA, if any, may be required to guarantee the Senior Unsecured Notes. In connection with the closing of the B+L IPO, the discharge of the April 2025 Unsecured Notes Indenture and the related release under the 2022 Amended Credit Agreement described above, the guarantees and related security provided by Bausch + Lomb and its subsidiaries in respect of the existing senior notes of the Company and BHA were released. On a non-consolidated basis, the non-guarantor subsidiaries had total assets of $13,076 million and total liabilities of $5,750 million as of June 30, 2023, and revenues of $2,192 million and operating income of $54 million for the six months ended June 30, 2023.

Accounts Receivable Credit Facility

On June 30, 2023, we entered into the AR Credit Facility with certain third-party lenders, providing for a non-recourse financing facility collateralized by certain of the Company's accounts receivable. The AR Facility Agreement provides for an up to $600 million facility, subject to certain borrowing base tests. Under the AR Credit Facility, the Borrower purchases accounts receivable, originated by a wholly-owned subsidiary of Bausch Health, which collateralize borrowings under the AR Credit Facility. The Borrower is a bankruptcy remote entity that is unrestricted under the Company's debt covenants, and which is consolidated by the Company.

Borrowings under the AR Credit Facility are in U.S. dollars and bear interest at a rate per annum equal to, the sum of the one month term SOFR plus 6.65%. The Company is required to pay commitment fees of 0.75% multiplied by the lesser of: (i) the unfunded portion of the lenders' commitments or (ii) 50% of the total lenders' commitments.

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

Availability Under Revolving Credit Facilities

As of August 3, 2023, there were no outstanding borrowings, $23 million of issued and outstanding letters of credit and approximately $952 million of remaining availability under the 2027 Revolving Credit Facility.

As of June 30, 2023, there were no outstanding borrowings under the AR Credit Facility. During the period July 1, 2023 through August 3, 2023, we have drawn $350 million, in the aggregate, of borrowings. Borrowings under our AR Credit Facility are for general corporate purposes.

As of August 3, 2023, there were $250 million of outstanding borrowings, $25 million of issued and outstanding letters of credit and $225 million remaining availability under the B+L Revolving Credit Facility. Absent the payment of a dividend, which would be determined by the Board of Directors of Bausch + Lomb and paid pro rata to Bausch + Lomb's shareholders, proceeds from the B+L Revolving Credit Facility are not available to fund the operations, investing and financing activities of any other subsidiaries of Bausch Health.

Covenant Compliance

As of June 30, 2023, the Company was in compliance with its financial maintenance covenant related to its outstanding debt. The Company, based on its current forecast, expects to remain in compliance with the financial maintenance covenant and meet its debt service obligations for at least the twelve months following the date of issuance of this Form 10-Q.

Any inability to comply with the covenants under the terms of our 2022 Amended 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 2022 Amended 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.

On November 29, 2022, the Company designated 1261229 B.C. Ltd., the entity that directly or indirectly holds 89% of the issued and outstanding shares of Bausch + Lomb, as an unrestricted subsidiary of the Company in accordance with the terms of the Company's indentures. In connection therewith, Bausch + Lomb and its subsidiaries are unrestricted subsidiaries of the Company and, as a result, are not subject to the covenants under the relevant Bausch Health indentures, and the earnings and debt of Bausch + Lomb, as defined in the relevant indentures, are also not included in the calculation of the Company's financial maintenance covenant.

The Company continues to take steps to seek to improve its operating results to ensure continual compliance with its financial maintenance covenant and take other actions to reduce its debt levels and improve its capital structure 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 including secondary offerings of the common shares of Bausch + Lomb, 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 accounting for the Exchange Offer results in the New Secured Notes being carried at a premium relative to their principal amount and will result in no interest expense to be recorded in our financial statements for a significant portion of the New Secured Notes. Therefore, interest expense recorded in our financial statements will differ significantly from the contractual interest rates of the New Secured Notes and term loan facilities. The weighted average interest rate of our debt as reported in our financial statements and the weighted average stated rate of interest was 6.29% and 7.91%, respectively, as of June 30, 2023.

Focus on Capitalization of the Post-separation Entities

In connection with the B+L Separation, we have emphasized that it is important that the post-separation entities be well-capitalized, with appropriate leverage and with access to additional capital, if and when needed, to provide each entity with the ability to independently allocate capital to areas that will strengthen their own competitive positions in their respective lines of business and position each entity for sustainable growth. Therefore, we see the appropriate capitalization and leverage of these businesses post-separation as a key to bringing out additional value across our portfolio of assets and it continues to be a primary objective of our plan of separation.

Credit Rating

As of August 3, 2023, the credit ratings and outlook from Moody's, Standard & Poor's ("S&P's") and Fitch for certain outstanding obligations of the Company were as follows:

	Bausch Health Companies Inc.				Bausch + Lomb Corporation		
Rating Agency	Corporate Rating	Senior Secured Rating	Senior Unsecured Rating	Outlook	Corporate Rating	Senior Secured Rating	Outlook
Moody's	Caa2	Caa1	Ca	Negative		B1	Negative
Standard & Poor's	CCC	CCC+	CCC-	Negative	B-	B-	Positive
Fitch	CCC	B	CC	No Outlook	B-	BB-	Rating Watch Evolving

Bausch Health Companies Inc. - There were no changes to the corporate credit ratings or other credit ratings of the Company during the second quarter of 2023.

Bausch + Lomb Corporation - There were no changes to the corporate credit ratings of Bausch + Lomb Corporation during the second quarter of 2023.

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.

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.

A substantial portion of our cash requirements for the remainder of 2023 are for debt service. Our other future cash requirements relate to working capital, capital expenditures, business development transactions (including contingent consideration), benefit obligations and litigation settlements. In addition, we may use cash to enter into licensing arrangements and/or to make strategic acquisitions. We regularly consider licensing and acquisition opportunities within our core therapeutic areas, some of which could be sizable.

In addition to our working capital requirements, as of June 30, 2023, we expect our primary cash requirements during the remainder of 2023 to include:

- *Debt repayments and interest payments*—Based on our debt portfolio as of August 3, 2023, we anticipate making mandatory amortization and interest payments of approximately $836 million during the period July 1, 2023 through December 31, 2023. We have, and in the future may also elect to make additional principal payments under certain circumstances. Further, in the ordinary course of business, we may borrow and repay additional amounts under our credit facilities using cash on hand, cash from operations and cash provided from the sale of common stock and additional debt financings in connection with the B+L Separation;

- *Capital expenditures*—We expect to make payments of approximately $200 million for property, plant and equipment during the period July 1, 2023 through December 31, 2023;

- *Contingent consideration and milestone payments*—We expect to make contingent consideration payments of approximately $65 million during the period July 1, 2023 through December 31, 2023. These payments include a $45 million payment in connection with Bausch + Lomb's agreement with Novaliq GmbH for MIEBO™ (formerly known as NOV03), for the treatment of the signs and symptoms of dry eye disease. Bausch + Lomb anticipates launching MIEBO™ in the U.S. in the third quarter of 2023; and

- *Benefit obligations*—We expect to make aggregate payments under our pension and postretirement obligations of $4 million during the period July 1, 2023 through December 31, 2023.

Litigation Payments

In the ordinary course of business, the Company is involved in litigation, claims, government inquiries, investigations, charges and proceedings. As of June 30, 2023, the Company's Condensed Consolidated Balance Sheet includes accrued loss contingencies of $326 million related to matters which are both probable and reasonably estimable, however, a reliable estimate of the period in which the remaining loss contingencies will be payable, if ever, cannot be made. Our ability to successfully defend the Company against pending and future litigation may impact future cash flows.

See Note 17, "LEGAL PROCEEDINGS" to our unaudited interim Condensed Consolidated Financial Statements for further details.

Acquisition of XIIDRA®

As previously discussed, on June 30, 2023, Bausch + Lomb entered into a definitive agreement with Novartis to acquire XIIDRA® and certain other ophthalmology assets. Under the terms of the agreement, Bausch + Lomb, through its affiliate, has agreed to make an upfront cash payment of $1,750 million, with additional payments that may become due upon achievement of future pipeline commercialization and future sales milestones. The transaction is expected to close by the end of 2023, subject to receipt of regulatory approval and other customary closing conditions. Bausch + Lomb intends to finance the $1,750 million upfront cash payment with new debt prior to the closing of the transaction. See Item 1A "Risk Factors" of Part II of this Form 10-Q for additional information on the risks relating to the acquisition of XIIDRA®.

Acquisition of Blink® Product Line

During July 2023, Bausch + Lomb made the upfront cash payment of $107 million to Johnson & Johnson Vision in connection with the closing of the previously discussed acquisition of the Blink® product line of eye and contact lens drops.

Future Cost Savings Programs

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.

Future Licensing Payments

In the ordinary course of business, the Company may enter into select licensing and collaborative agreements for the commercialization and/or development of unique products primarily in the U.S. and Canada. In connection with these agreements, the Company may pay an upfront fee to secure the agreement. See Note 4, "LICENSING AGREEMENTS AND ACQUISITIONS" to our unaudited interim Condensed Consolidated Financial Statements. Payments associated with the upfront fee for these agreements cannot be reasonably estimated at this time and could be material.

Unrecognized Tax Benefits

As of June 30, 2023, the Company had unrecognized tax benefits totaling $901 million, of which, $4 million is expected to be realized during the remainder of 2023, however a reliable estimate of the period in which the remaining uncertain tax positions will be payable, if ever, cannot be made.

Future Repurchases of Debt

The Company regularly evaluates market conditions, its liquidity profile, and various financing alternatives for opportunities to enhance its capital structure. If opportunities are favorable, we may, from time to time, purchase outstanding debt for cash in open market purchases or privately negotiated transactions. Such repurchases or exchanges, if any, will depend on prevailing market conditions, future liquidity requirements, contractual restrictions and other factors.

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, 2022, filed with the SEC and the CSA on February 23, 2023.

OUTSTANDING SHARE DATA

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

At July 28, 2023, we had 364,334,264 issued and outstanding common shares. In addition, as of July 28, 2023, we had outstanding 11,572,015 stock options and 10,716,174 time-based restricted share units that each represent the right of a holder to receive one of the Company's common shares, and 730,125 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 1,460,250 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 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 and estimates 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, 2022, filed with the SEC and the CSA on February 23, 2023, and determined that there were no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2023.

Interim Goodwill Assessment

No events occurred, or circumstances changed during the three months ended June 30, 2023, that indicated that the fair value of any reporting unit might be below its respective carrying value. However, as a result of certain market conditions,

macroeconomic factors and other business specific related factors that existed in 2022, the Company continues to monitor changes in the facts and circumstances which may impact the fair value of its Dermatology and Neurology and other reporting units.

Dermatology

As a result of the impairment of goodwill in 2022, the Dermatology reporting unit had no headroom on September 30, 2022. As such, we continue to monitor conditions which may impact the valuation of the reporting unit including the reporting unit's performance and revisions, if any, to its long-term forecasts in light of current market conditions, current trends in business performance and the expected impacts of management's latest business strategies. Our current evaluation of these matters supports our previous expectations for the long-term business performance. Additionally, based on reference interest rates as of June 30, 2023, the Company concluded that discount rates would not have increased as compared to the discount rate used in determining the fair value as of September 30, 2022 when the unit was last tested. Based on our evaluation, we have not identified any changes in facts or circumstances that would suggest that it is more likely than not that the fair value of this reporting unit is less than its carrying value. However, given the limited headroom for this reporting unit, if market conditions deteriorate, or if we are unable to execute on our strategies, it may be necessary to record impairment charges in the future and those charges could be material.

Neurology and Other

As a result of the impairment of goodwill in 2022, the Neurology and Other reporting unit had no headroom on October 1, 2022. As such, we continue to monitor conditions which may impact the valuation of the reporting unit including the reporting unit's performance and revisions, if any, to its long-term forecasts in light of current market conditions, current trends in business performance and the expected impacts of management's latest business strategies. Our current evaluation of these matters supports our previous expectations for the long-term business performance. Additionally, based on reference interest rates, the Company concluded that discount rates would not have increased as compared to the discount rate used in determining the fair value as of October 1, 2022 when the reporting unit was last tested. Based on our evaluation, we have not identified any changes in facts or circumstances that would suggest that it is more likely than not that the fair value of this reporting unit is less than its carrying value. However, if market conditions deteriorate, or if we are unable to execute on our strategies, it may be necessary to record impairment charges in the future and those charges could be material.

See Note 8, "INTANGIBLE ASSETS AND GOODWILL" to our unaudited interim Condensed Consolidated Financial Statements for further details related to goodwill.

NEW ACCOUNTING STANDARDS

None.

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, expected launches of new products, product development and future performance and results of current and anticipated products; anticipated revenues for our products; expected research and development ("R&D") and marketing spend; our expected primary cash and working capital requirements for this fiscal year 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 comply with the financial and other covenants contained in the 2022 Amended Credit Agreement and senior notes indentures; the ability of our subsidiary, Bausch + Lomb, to comply with the financial and other covenants contained in the B+L Credit Agreement; 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; our impairment assessments, including the assumptions used therein and the results thereof; the impact of the COVID-19 pandemic; the

anticipated impact from the ongoing conflict between Russia and Ukraine; and the Company's plan to separate its eye health business, including the structure and timing of completing such separation transaction.

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", "decrease" 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. 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 potential adverse impact on our business and operations resulting from the ongoing conflict between Russia and Ukraine;
- the risks and uncertainties caused by or relating to the COVID-19 pandemic, the potential resurgence of the COVID-19 virus and any resulting reinstitution of lockdowns and other restrictions, the evolving reaction of governments, private sector participants and the public to that pandemic, and the potential effects and economic impact of the pandemic and the reaction to it, the severity, duration and future impact of which are highly uncertain and cannot be predicted, and which may have a significant adverse impact on the Company, including, but not limited to, its supply chain, third-party suppliers, project development timelines, employee base, liquidity, stock price, financial condition, costs (which may increase) and revenue and margins (both of which may decrease);
- the challenges the Company faces as a result of the closing of the B+L IPO, including the transitional services being provided by and to Bausch + Lomb, any potential, actual or perceived conflict of interest of some of our directors and officers because of their equity ownership in Bausch + Lomb and/or because they also serve as directors or officers of Bausch + Lomb and our ability to timely consolidate the financial results of the Bausch + Lomb business;
- with respect to the B+L Separation, the risks and uncertainties include, but are not limited to, the expected benefits and costs of the B+L Separation, the expected timing of completion of the B+L Separation and its terms, the Company's ability to complete the B+L Separation considering the various conditions to the completion of the B+L Separation (some of which are outside the Company's control, including conditions related to regulatory matters and applicable shareholder and stock exchange approvals), that market or other conditions are no longer favorable to completing the B+L Separation, that the previously announced planned Solta IPO has been suspended, that the Norwich Legal Decision (see *"Xifaxan® Paragraph IV Proceedings"* of Note 17, "LEGAL PROCEEDINGS" to our unaudited interim Condensed Consolidated Financial Statements) may affect the timing of, or our ability to complete the B+L Separation, that applicable shareholder, stock exchange, regulatory or other approvals are not obtained on the terms or timelines anticipated or at all, business disruption during the pendency of, or following, the B+L Separation, diversion of management time on separation transaction-related issues, retention of existing management team members, the reaction of customers and other parties to the separation transaction, the qualification of the separation transaction as a tax-free transaction for Canadian and/or U.S. federal income tax purposes (including whether or not an advance ruling from the Canada Revenue Agency and/or the Internal Revenue Service will be sought or obtained), the ability of the Company and the separated entity to satisfy the conditions required to maintain the tax-free status of the B+L Separation (some of which are beyond their control), limitations on the Company's ability to sell a portion of the Company's interest in Bausch + Lomb in order to maintain the tax-free status of the B+L Separation (including due to dilution from B+L's issuance of share-based compensation awards), other potential tax or other liabilities that may arise as a result of the B+L Separation, the potential dissynergy costs resulting from the B+L Separation, the impact of the B+L Separation on relationships with customers, suppliers, employees and other business counterparties, general economic conditions, conditions in the markets the Company is engaged in, behavior of customers, suppliers and competitors, technological developments, as well as legal and regulatory rules affecting the Company's business. In particular, the Company can offer no assurance that any B+L Separation will occur at all, or that any such transaction will occur on the timelines anticipated by the Company;

- ongoing litigation and potential additional litigation, claims, challenges and/or regulatory investigations challenging or otherwise relating to the B+L IPO and the B+L Separation and the costs, expenses, use of resources, diversion of management time and efforts, liability and damages that may result therefrom;
- 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 a number of pending non-class securities litigations (including certain pending opt-out actions in the U.S. related to the previously settled securities class action and certain opt-out actions in Canada relating to the previously settled class action in Canada), certain pending lawsuits 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, 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 historic practice of limiting the average annual price increase for our branded prescription pharmaceutical products to single digits, or any future pricing actions we may take in 2023 or beyond 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 FDA and equivalent agencies outside of the U.S. and the results thereof;
- actions by the FDA or other regulatory authorities with respect to our products or facilities;
- compliance with the legal and regulatory requirements of our marketed products;
- 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 comply with the financial and other covenants contained in our senior notes indentures, the 2027 Revolving Credit Facility, the 2022 Amended Credit Agreement, the B+L Credit Agreement and other current or future credit and/or debt agreements, including the ability of Bausch + Lomb to comply with its covenants and obligations under the B+L Credit Agreement, 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 obligations we are able to incur pursuant to other covenants, our ability to draw under our 2027 Revolving Credit Facility, Bausch + Lomb's ability to draw down under the revolving credit facility under the B+L Credit Agreement and restrictions on our ability to make certain investments and other restricted payments;
- any default under the terms of our senior notes indentures or the 2022 Amended Credit Agreement (and other current or future credit and/or debt agreements) and our ability, if any, to cure or obtain waivers of such default;
- 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 2023 or beyond, including as a result of the impacts of the COVID-19 pandemic on our business and operations, which could lead to, among other things: (i) a failure to meet the financial and/or other covenants contained in the 2022 Amended Credit Agreement, senior notes indentures and/or the B+L Credit Agreement (and other current or future credit and/or debt agreements) 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 risks and uncertainties relating to Bausch + Lomb's recently-announced transaction for the acquisition of XIIDRA® and certain other assets, including its ability to consummate that transaction and the timing thereof, the possibility that any or all of the conditions to the consummation of the transaction may not be satisfied or waived, including failure to receive required regulatory approvals, the effect of the announcement or pendency of the transaction on its ability to maintain relationships with customers, suppliers, and other business partners, risks relating to potential diversion of management attention away from its ongoing business operations, its ability to finance the transaction as anticipated, risks relating to our increased levels of debt as a result of debt expected to be incurred to finance such acquisition and risks that Bausch + Lomb may not realize the expected benefits of the acquisition on a timely basis or at all;
- the uncertainties associated with the acquisition and launch of new products, assets and businesses, including, but not limited to, our ability to provide the time, resources, expertise and funds required for the commercial launch of new products, the acceptance and demand for new 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 directors, executives and other key employees;
- our ability to implement effective succession planning for our executives and key employees;
- factors impacting our ability to stabilize and reposition our Dermatology business to generate additional value, including the success of recently launched products and the approval of pipeline products (and the timing of such approvals);
- factors impacting our ability to achieve anticipated revenues for our products, including changes in anticipated marketing spend on such products and launch of competing products;
- factors impacting our ability to achieve anticipated market acceptance for our products, including acceptance of the pricing, effectiveness of promotional efforts, reputation of our 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, limitations on the way we conduct business imposed by the covenants contained in our 2022 Amended Credit Agreement, the B+L Credit Agreement, our senior notes indentures and the agreements governing our other indebtedness, and the impacts of the COVID-19 pandemic;
- 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 may have on the decisions of such government authorities, PBMs and other third-party payors to reimburse our products; the impact of obtaining or maintaining such reimbursement on the price and sales of our products; and the launch and implementation of any new pharma-care or dental-care program or related spending by the Canadian federal government;
- 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 ability to maintain strong relationships with physicians and other healthcare professionals;

- our eligibility for benefits under tax treaties and the availability of low effective tax rates for the business profits of certain of our subsidiaries;
- the implementation of the Organisation for Economic Co-operation and Development inclusive framework on Base Erosion and Profit Shifting, including the global minimum corporate tax rate, by the countries in which we operate;
- the outcome of any audits by taxation authorities, which outcomes may differ from the estimates and assumptions that we may use in determining our consolidated tax provisions and accruals;
- 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;
- 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, including rates of inflation, and credit markets and foreign currency exchange uncertainty and volatility in certain of the countries in which we do business;
- the trade conflict between the U.S. and China;
- the impact of the ongoing conflict between Russia and Ukraine and the export controls, sanctions and other restrictive actions that have been or may be imposed by the U.S., Canada, the EU and other countries against governmental and other entities in Russia, Belarus and parts of Ukraine; including potential impact on sales, earnings, market conditions and the ability of the Company to manage its resources and operations in Russia;
- the impact of the United States-Mexico-Canada Agreement ("USMCA") and any potential changes to other trade agreements;
- our ability to obtain, maintain and license sufficient intellectual property rights over our products and enforce and defend against challenges to such intellectual property (such as in connection with the filing by Norwich Pharmaceuticals Inc. ("Norwich") of its Abbreviated New Drug Application ("ANDA") for Xifaxan® (rifaximin) 550 mg tablets and the Company's related lawsuit filed against Norwich in connection therewith) and the impacts of the Norwich Legal Decision and related litigation on, among other things, our business results, financial results, and the B+L Separation;
- our ability to successfully appeal the decision of the U.S. District Court for the District of Delaware in the Company's lawsuit against Norwich in connection with Norwich's ANDA and challenge Norwich's ability to achieve a modified ANDA that avoids the August 10, 2022 final judgment by the District Court and omits the Xifaxan® hepatic encephalopathy ("HE") indication and HE safety data;
- the fact that a substantial amount of our revenues are derived from the Xifaxan® product line, and that we may be materially impacted by the entry of a generic rifaximin product earlier than January 2028, including the risk of a competitor launching a generic rifaximin at risk prior to a final unappealable decision;
- 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 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;
- our ability to effectively promote our own products and those of our co-promotion partners;
- the success of our fulfillment arrangements with Walgreen Co., 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 and potential other impacts 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;
- our indemnity agreements, which may result in an obligation to indemnify or reimburse the relevant counterparty, which amounts may be material;
- 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, European Medicines Agency 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;
- uncertainties around the successful improvement and modification of our existing products and development of new products, which may require significant expenditures and efforts;
- 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 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 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 businesses 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 that may be undertaken under the current administration;
- illegal distribution or sale of counterfeit versions of our products;
- any plans for the Company's aesthetic medical business;
- 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, 2022, filed on February 23, 2023, risks in Item 1A. "Risk Factors" of Part II of this Form 10-Q and risks detailed from time to time in our other filings with the SEC and 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, 2022, filed on February 23, 2023, under Item 1A. "Risk Factors", under Item 1A. "Risk Factors" of Part II of this Form 10-Q and in the Company's other filings with the SEC and the 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" and "— Inflation 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, 2022, filed with the SEC and the CSA on February 23, 2023.

Interest Rate Risk

As of June 30, 2023, we had $13,715 million and $5,295 million in outstanding aggregate principal amount of fixed rate debt and variable rate debt, respectively. The estimated fair value of our issued fixed rate debt as of June 30, 2023 was $9,111 million. If interest rates were to increase by 100 basis-points, the fair value of our issued fixed rate debt would decrease by approximately $279 million. If interest rates were to decrease by 100 basis-points, the fair value of our issued fixed rate debt would increase by approximately $269 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-point increase in interest rates would have an annualized pre-tax effect of approximately $53 million in our Condensed 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.

Inflation Risk

We are subject to price control restrictions on our pharmaceutical products in a number of countries in which we operate. As a result, our ability to raise prices in a timely fashion in anticipation of inflation may be limited in some markets.

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, 2023. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.