DISTRESSED DAILY: Imaging Company Carestream Faces Blurry Future

By Lauren Coleman-Lochner

(Bloomberg) -- Carestream Health knocked off $220 million in debt in a deal announced late last month. But the picture still isn’t good for the medical-imaging company, S&P Global Ratings says.

The debt-for-equity swap left Carestream’s lenders in control of the Rochester, New York–based company and prompted S&P to lower the company’s credit rating four notches to CC and its second-lien issue-level rating three steps to CCC+, deeming the deal a distressed exchange.

S&P cited “an unfavorable macro environment” including rising interest rates and the pandemic’s impact in China, along with a “secularly declining” film business that could make refinancing difficult. “Even if the company were able to refinance all first and second lien debt at par, we believe the higher interest costs would further impair the longer-term sustainability of the capital structure given the company’s current operating outlook,” analysts Winter Yeung and Maryna Kandrukhin wrote.

S&P said it would raise the issuer rating after the transaction closed to reflect Carestream’s new capital structure. “Notwithstanding the downgrade, we believe the exchange, if successful, would benefit Carestream’s credit profile by reducing its reported debt and improving cash flow generation,” the analysts said.

Carestream makes medical imaging products including films, software and X-ray machines as well as coating and materials testing services for various industries.

“The imaging industry is an industry that’s driven by data and new technology,” said Carol Fox, a senior managing director and turnaround executive at B. Riley Advisory Services. “You don’t want to tote around your films anymore.” Surgeries requiring imaging are still lagging because of the pandemic, she added.

Canadian buyout firm Onex Corp. bought Carestream Health for $2.4 billion from Eastman Kodak Co. in 2007. Bloomberg reported last year that Onex was seeking at least $1 billion in its third attempt to sell the company. Carestream sold its digital dental business in 2017.

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- **QUOTABLE**
- "It increasingly has a problem with the marketplace."
  - Bond-market strategist Mohamed El-Erian speaking about the Federal Reserve on Bloomberg Television
- **DEADLINES AND DOCKETS**
  - All times are U.S. Eastern unless specified and are subject to late revision or cancellation.
  - Monday, May 9
    - Ector County Energy Center, bankruptcy hearing, 2:30 p.m.
    - Ion Geophysical, DIP hearing, 4:30 p.m.
- **READING LIST**
  - News, research and insight relevant to distressed investing
  - Leveraged-Loan Deals Face Some Struggles in Wake of Fed Hike
  - El-Erian Says Fed Lost Credibility With Markets, American Public
  - Endo Plummets to Record Low as Outlook Goes ‘From Bad to Worse’
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923118Z US (Carestream Health Inc)

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