

Debt becomes a way of life for biotech



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Biotech debt: the paradox of lending money to a lossmaking entity on terms that call for regular repayments seemed unthinkable just a few years back. But several factors, not least the 2007/08 financial crash, have combined to make this an important business for today's bankers.

And yesterday's monster \$500m term loan by Tesaro shows that, in an age where interest rates remain historically low, this source of financing is unlikely to go away. Though Tesaro's raise is large it does not top the list of recent biotech debt deals (see table below).

According to data gleaned from a news search on *EvaluatePharma*, among biotechs capitalised at \$10bn or less Tesaro's raise comes in at seventh place versus other debt financings completed in the past 10 years. It will also not go unnoticed how many have taken place – and how much debt has been raised – just this year.

Jazz, a serial debt issuer, Sarepta and Neurocrine have each completed 2017 convertible debt offerings that are bigger than Tesaro's \$500m term loan. Tesaro had already raised \$201m in a 2014 convertible.

Biotech's biggest debt issues (since 2007, <\$10bn market cap)

Company	Amount raised	Debt type	Announced
Cubist	\$800m	Convertible senior notes (1.125-1.875%)	Sep 2013
Dendreon	\$620m	Convertible notes (2.875%)	Jan 2011
Amylin	\$575m	Convertible senior notes (3%)	Jun 2007
Jazz Pharmaceuticals	\$575m	Exchangeable senior notes (1.5%)	Sep 2017
Sarepta	\$570m	Convertible senior notes (1.5%)	Nov 2017
Neurocrine Biosciences	\$518m	Convertible senior notes (2.25%)	May 2017
Tesaro	\$500m	Term loan	Nov 2017
Jazz Pharmaceuticals	\$500m	Exchangeable senior notes (1.875%)	Aug 2014
Human Genome Sciences	\$495m	Convertible senior notes (3%)	Nov 2011
Jazz Pharmaceuticals	\$475m	Term loan	Jun 2012 (Eusa Pharma purchase)
Intercept	\$460m	Convertible senior notes (3.25%)	Jul 2016
Alkermes	\$450m	Loan	Sep 2011 (Elan Drug Technologies merger)
Cubist	\$450m	Convertible senior notes (2.5%)	Oct 2010
Theravance	\$450m	Non-recourse notes (9%)	Apr 2014 (business split into Theravance Biopharma and Innoviva)
Isis Pharmaceuticals (now Ionis)	\$425m	Convertible senior notes (1%)	Nov 2014

Source: EvaluatePharma, company filings.

To be fair, the latest round of issues probably has little to do with post-financial crash desperation, and more with the cheapness of debt relative to equity.

Indeed, all of the biotechs in the list have at least one marketed asset – and typically this will have been launched recently, putting them on the radar of bankers seeking debt deals. With a revenue stream securing returns, financing that can be described as “non-dilutive” can make for a fairly straightforward pitch.

Cynics would also note that the banks can rest easy, knowing that in the event of insolvency the interests of debt holders lie near the top of the list of creditors – and certainly well above those of owners of equity.

It is partly this that led to entities like Silicon Valley Bank specifically focusing on biotech debt in the wake of the financial crash. And with common stock issues proving unpopular, biotech debt could give bankers a handy return – with commensurate risk – at a time when falling interest rates were making returns on normal debt vanishingly small.

The recent biotechs raising debt are of course much bigger than those targeted by Silicon Valley Bank, showing that biotech debt really is entering the mainstream. None has yet attempted big pharma’s gambit of issuing cheap debt to swap for expensive equity, so the biotech approach has yet to enter the realms of financial engineering.

And, as most things biotech, this is still a risky business. This is perfectly illustrated by Dendreon, which

managed a \$620m convertible debt issue when the going was good, but which went into bankruptcy protection when five years later it found itself unable to repay.

Indeed, the list contains other notable examples where things did not go smoothly, including Cubist and Human Genome Sciences. True, both ended up being taken over, no doubt in part thanks to their cash balances providing a strong hand in negotiation. But whether years later the acquirers will view their purchases positively is a tougher question to answer.

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