Life Science Companies Participate in Convertible Bond Surge



Life science companies have been among the biggest users of convertible debt financing in the first half of 2020. As highlighted in our recent **Client Insight article**, life science, technology and other traditional high-yield debt issuers were the biggest participants in the record issuance of convertible bonds. Through June 30, 2020, U.S. companies raised over $64 billion in 114 convertible bond offerings with most of the surge occurring in the second quarter. May 2020 saw a record $20.7 billion of convertible debt issued. The previous record monthly high for convertible issuance was $19.2 billion in May 2001.

The strength of the convertible bond market was due in part to high share price volatility in equity markets and wide credit spreads above comparable U.S. Treasuries in debt markets. These market conditions make convertible debt an attractive source of capital versus equity follow-ons and high-yield debt offerings. One notable life science transaction in the first half of 2020 was BridgeBio Pharma Inc.'s (BBIO) pricing of an upsized $550 million (from $375 million) convertible debt offering that featured a 2.50% coupon. Additionally, BBIO entered into capped call transactions to raise the effective conversion prices of the notes and hedge risk of equity dilution upon conversion. The strength of the convertible debt market enabled BBIO and other life science companies to raise capital at attractive levels. In the first half of 2020, the average coupon rate for all convertible debt offerings was 1.25% with an average conversion premium of 37%.

Given that share price volatility and credit spreads are still at historically high levels, convertible bond offerings are expected to remain a popular source of financing for life science issuers in the second half of 2020.