

Financing Genentech: the bond issues of 2009

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The most instructive episode in the financial history of the Basel pharmaceutical groups is the acquisition of the minority shareholding in Genentech by Roche in 2009. Roche had acquired a majority of the South San Francisco biotechnology company in 1990 and had allowed it to remain a separately listed company with considerable autonomy. In July 2008, Roche offered to acquire the shares of Genentech that it did not already own, which amounted to roughly 44 per cent of the company. After months of negotiation, during which the Genentech board's special committee rejected the initial price, the parties agreed in March 2009 on a price of USD 95 per share, valuing the minority stake at about USD 47 billion.¹

The timing was extraordinary. The transaction had to be financed during the worst phase of the global financial crisis, a few months after the failure of Lehman Brothers, at a time when bank lending was severely constrained and many credit markets had ceased to function normally. Roche responded with a series of bond issues that were among the largest corporate bond issues ever made up to that time. In late February 2009 the group placed bonds in the United States amounting to about USD 16.5 billion, spread across several maturities. In the same period it issued euro-denominated bonds of several billion euros and further bonds in Swiss francs and pounds sterling.²

Together with commercial paper and existing liquid funds, these issues provided the cash needed to complete the acquisition, which closed in March 2009. The success of the placements showed that investors in the middle of a crisis were prepared to lend large sums to borrowers whose cash flows were regarded as resistant to recession. Pharmaceutical demand depends little on the economic cycle, since patients continue to need medicines regardless of the state of the economy. Heavily oversubscribed,

the Roche bonds set a pricing reference for other high-quality corporate issuers in the following months.³

The Genentech financing raised Roche's indebtedness to a level that was unusual for the group. Net debt rose to several tens of billions of francs, whereupon the company announced its intention to reduce it rapidly from operating cash flow. Over the following years, Roche repaid a considerable part of the bonds as they matured and used its cash flow to return to a more conservative balance sheet. The episode demonstrated that a company with a low-leverage tradition can use its credit standing when a strategic opportunity arises, and that the debt capital markets regard such a company as able to carry heavy borrowing for a limited period.⁴

From the perspective of the financial centre, it is notable that the largest part of the Genentech financing was raised in the United States and in the euro market. The Swiss franc bond market, although well developed, could not have absorbed issues of that size. This illustrates a structural feature of corporate finance in Basel: the operating headquarters is in Switzerland, while the capital that funds the largest transactions comes predominantly from American and European investors. The Swiss banks played a role as part of the syndicates, although the leading positions in the dollar issues were held by large American and European investment banks.⁵

1 Notes

1. On the acquisition of the Genentech minority by Roche in 2009, the initial offer of July 2008, the agreed price of USD 95 per share and the total value of about USD 46.8 billion, see the press releases of Roche Holding AG of 21 July 2008 and 12 March 2009 and the Roche annual report 2009. Figures to be verified. ↩
2. On the Roche bond issues of February and March 2009, including the US dollar issue of about USD 16.5 billion, the euro issue and the issues in Swiss francs and pounds sterling, see the Roche press releases of February and March 2009, the Roche annual report 2009 and contemporary reports in the financial press. Amounts and tranches to be verified. ↩
3. On the completion of the Genentech transaction in March 2009, the use of commercial paper and the oversubscription of the Roche bond issues, see the Roche annual report 2009 and contemporary reports in the Financial Times and the Neue Zürcher Zeitung. To be verified. ↩

4. On the development of Roche's net debt after the Genentech acquisition and its subsequent reduction, see the Roche annual reports 2009–2013. Figures to be verified. ↩
5. On the composition of the underwriting syndicates for the Roche bond issues of 2009, see the offering documents and press reports of the time. Bank roles to be verified. ↩

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