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The Top 5 most common misunderstandings of at-the-market Offerings

"After the first couple of transactions we became convinced that it wasn't going to cause the stock price to drop. Once we realized this, we decided to raise more money. We were amazed at the flexibility of the instrument. You can raise money when you see the opportunity or have the need."

CFO, Life Sciences

At-the-market offerings have been used by experienced Chief Financial Officers at large-capitalization issuers for over 20 years. More recently, at-the-market offerings are rapidly becoming a more widely used financing tool by smaller capitalization issuers as well. Despite the significant growth in both the number of active ATMs and gross proceeds raised, some life sciences issuers are missing out because of misunderstandings that CFOs, other C-level executives and board members have about ATMs. There has been a very significant uptick in ATM use in recent years among life sciences issuers. Data reported for 2011 show that 35 U.S. life sciences companies used ATMs to raise more than $224 million, compared to the 26 that raised $184 million in 2010, a 22 percent increase, and compared to just $21 million via two active ATMs in 2007.

So what are the most common misunderstandings about at-the-market offerings?

1) Announcing an ATM offering will depress a company's share value
2) ATMs are a financing vehicle of last resort
3) ATMs are appropriate for only small companies
4) It doesn't matter which ATM provider is used
5) ATMs are the same as an equity line of credit

Each of these items will be addressed in turn:

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Misunderstanding #1: Announcing an ATM offering will depress a company's share value

"Brinson Patrick offers a unique financing vehicle that is well suited for a public life sciences company with liquidity in their stock, with positive news flow, and with a need to consistently raise money over time. There are so many creative ways a public life sciences company can use the DOCS® facility from Brinson Patrick."

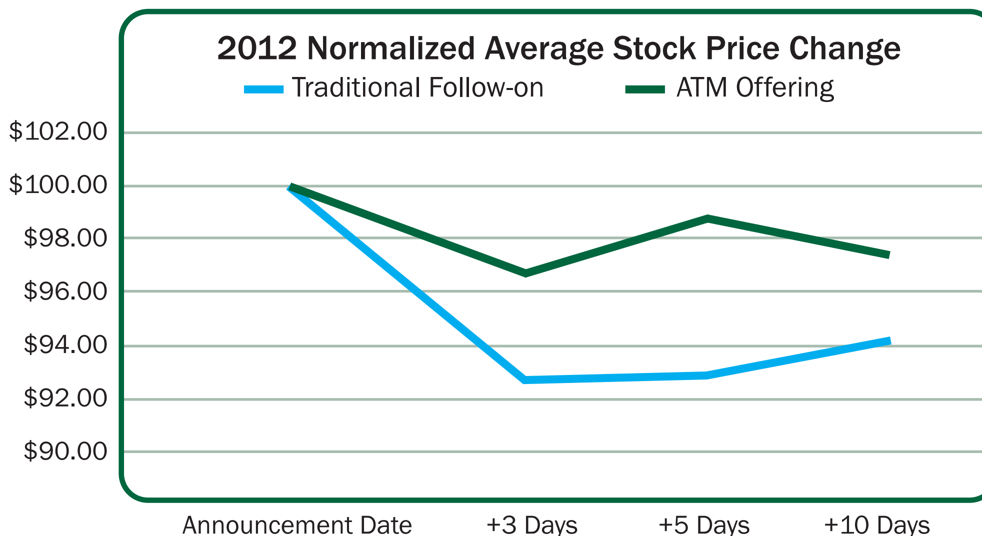
Chairman of the Board, Life Sciences Firm

Announcements of follow-on equity offering in the life sciences typically result in a drop of the stock price. Ten percent drops are fairly common. Since an ATM is a follow-on offering, the logical expectation is that the share price will fall as much or more following an ATM announcement. In fact, this assumption is incorrect.

Data on life sciences stock price movements following announcements of ATMs compared to conventional follow-on offerings demonstrate a minimal impact of ATM announcements on the stock price compared to conventional follow-on offering announcements (Exhibit 1). Based on equity offerings during the first five months of 2012, the stock price decline following announcements of conventional follow-on offerings was six to seven percent whereas the stock price decline following ATM announcements was much smaller at one to three percent.

Exhibit 1. Stock prices change much less following ATM announcements compared to changes in stock prices following conventional follow-on offering announcements

	Stock Price Change After Deal Announcements			
Date 1/2/2012 - 5/15/2012	+3 Days	+5 Days	+10 Days	Number of Deals
Traditional Follow-on	-7.30%	-7.27%	-5.87%	56
ATM Offering	-3.22%	-1.38%	-2.49%	12



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Misunderstanding #2: ATMs are a financing vehicle of last resort

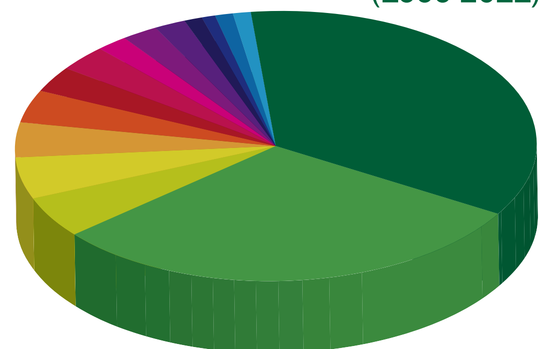
One of the most common misunderstandings about an ATM in the life science industry is that ATM offerings are used only by companies that are unable to complete more traditional financing transactions such as traditional follow-on offerings, registered directs, and private investments in public equities (PIPEs).

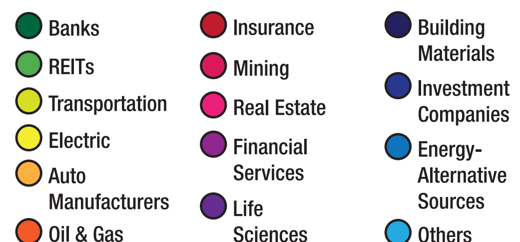
In fact, among strategic and forward-thinking CFOs within and outside of the life sciences industry, the opposite is true. ATMs are a critical component contained in their financing toolboxes. They understand that ATMs allow them to raise capital much more cost-effectively and with greater control compared to other capital raising methods. Because of the "dribble out" nature of ATMs, they would actually be a poor choice for a company in dire need for financing and without near term value generators or milestones. It is not a "financing at any cost" approach for a company that is in desperate need of raising any amount of capital in order to survive.

ATMs are a great tool for companies with a strategic approach to financing. Using an ATM, issuers can cost-effectively raise capital while maintaining flexibility in the timing an pricing of the offering. ATMs can also be positioned in advance of an upcoming liquidity event or major milestone and take advantage of above average liquidity and a rising stock price that can occur with positive news. Therefore, ATMs are best considered as an option for a company with a strategic and forward-looking approach rather than for a company in financial distress.

Forward-thinking CFOs focused on minimizing unnecessary dilution tend to first utilize an ATM to raise capital in a cost-effective manner. If after utilizing an ATM additional capital is needed, particularly in a short time frame, a more dilutive traditional method can be employed.

ATM gross proceeds usage % by industry (1999-2011)





Misunderstanding #3: ATMs are appropriate for only small companies

Some have assumed that ATMs are a financing tool used only by small companies. It is mistakenly believed that larger, and more liquid companies do not avail themselves of this tool, as traditional approaches to the capital markets are more than adequate to fulfill their financing requirements.

In fact, ATMs are used by companies of all market capitalization ranges. Large-capitalization companies that have recently employed ATM offerings include:

Life sciences companies using ATMs have been generally smaller than those from other industries, but this is because the largest life sciences companies typically do not need to raise any capital. Big or small, any company has the ability to raise significant amounts of capital through an ATM strategically.

Misunderstanding #4: It doesn't matter which ATM provider is used

Implementing and executing an ATM offering correctly requires significant experience and skill. There are trading and regulatory issues where inexperienced providers frequently make mistakes.

You want the investment bank that handles your ATM to:

- **Have a proven track record of implementing and executing ATMs over a number of years**

You don't want to be anyone's guinea pig. There are a lot of investment banks experienced in other forms of corporate finance. Performing an ATM to maximize capital raised takes experience that is unique to the ATM offering. ATMs are a unique form of financing that requires the expertise of an experienced ATM provider.

- **Specializes in at-the-market offerings**

Many investment banks recently started pitching at-the-market offerings, but only after years of denigrating this financing tool. These investment banks usually pitched other more expensive forms of financing that generate higher fees for the banks. Investment banks that don't focus on ATMs will use their less experienced traders on ATM assignments or use traders who are simultaneously juggling other types of trading priorities. The investment bank you choose to execute your ATM offering can have a huge impact on the capital you raise.

- **No Conflicting Interests**

For investment banks that don't specialize in ATMs, their other lines of business might present significant conflicts of interests. When an investment bank has a market-making or other proprietary trading operation, how can you be sure that your trading instructions for the ATM don't end up benefiting the proprietary traders? When an investment bank has a sales force that talks to hedge funds every day, how can you be sure than information is being leaked to these hedge funds that might cause them to sell ahead of your ATM orders? The question becomes: how much do you believe that the non-specialized investment banks have your best interests at heart, and not someone else's?

- **Stability and long-term commitment to ATM offerings**

There are a number of investment banks that have had great difficulty maintaining their stability since the financial crisis. Some investment banks dabbled in pitching ATMs but have recently stopped. Others have disbanded their units that have focused on financing issuers in growth industries. Still other investment banks have completely shut down. In addition to the ability to execute, you also want to have confidence that your ATM provider will be around when you want to use the ATM tool.

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Misunderstanding #5: ATMs are the same as an equity line of credit

Because of their superficial similarities, ATMs are often equated to equity lines of credit. In reality, the two financing vehicles are quite different. The only similarity is that newly-issued shares eventually are sold in the open market. Beyond that, their characteristics diverge.

In an equity line of credit, shares are sold by the issuer at a discount to the market price to a hedge fund. It is believed that these hedge funds tend to flip those shares into the market at the market prices, profiting from the price differential. In this scenario, the sales into the market are made for the benefit of the hedge fund and not the issuer. On the other hand, an issuer employing an ATM works in concert with an underwriter to sell the shares in the interest of the issuer. The cost to the issuer is a fee that is based on a pre-determined percentage, typically three-to-five percent, of the gross proceeds. If a company plans to raise capital by issuing shares on the open market over a period of time, why not work with an agent whose interests are aligned with the issuer via an ATM?

Conclusion

Strategic minded CFOs in the life sciences industry are increasingly employing ATMs because they enable companies to better control the financing process and their relatively low cost compared to more traditional follow-on financing vehicles. Despite this growth, some life sciences issuers might be missing out because of misunderstandings of what ATMs provide and how they work. This article addressed some of the most important misunderstandings and illustrated the true advantages that an ATM, through an experienced ATM underwriter, can provide to an issuer. Fully understanding an ATM offering and seeking an experienced provider will enable any life science company, big or small, to successfully raise capital in a controlled manner over an extended period of time.

Interested in talking to an experienced At the Market Offering Provider?
Please contact Todd Wyche at Brinson Patrick to set up an informational interview to determine better if at the market financing would be a good tool for your organization's financing needs at this time, and how to best make the case for at the market financing to all relevant parties.

About the Author

Todd Wyche is a founder and managing director of Brinson Patrick Securities Corporation, which has focused exclusively on helping CFOs of life sciences, real estate and energy companies to raise capital in controlled and cost-effective ways since 1996. Considered a pioneer in the use of ATMs, Wyche has seen the frequency and dollar amount of this alternative financing vehicle increase to a total of 106 issuers raising $8.25 billion in 2010 from almost none when he founded the firm.

Prior to founding Brinson Patrick Securities Corporation, Wyche was the founding principal of a predecessor firm, Brinson Patrick Capital Management, where he structured and executed over $9 billion of equity transactions. Wyche often speaks at conferences and on panels to discuss the financing challenges that companies face today and the alternative financing vehicles that may overcome these challenges.

Wyche holds a degree in economics from Yale University.