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Will More Biotechs Hit the ATM?

Avanir's at-the-Market Offering Avoids Discounts and Warrants

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It's been a smoking hot summer for public biotech financing, with more than $4 billion raised in May through July – nearly triple the $1.6 billion raised in January through April.

Yet many of those public offerings, registered directs and PIPEs involved less-than-ideal terms.

With most experts reluctant to call the current financing window a bona fide turnaround, companies have rushed to raise cash while the going is good, often accepting significant warrant coverage and discounts upward of 10 percent.

It doesn't have to be that way – at least not according to Avanir Pharmaceuticals Inc. and the handful of bankers pushing at-the-market offerings (ATMs).

Although popular in sectors like real estate and energy, ATMs are uncommon in the biotech world. They involve selling shares into the market in small chunks, essentially filling buy orders for a company's stock.

The primary advantage of an ATM is cost-effectiveness. Todd Wyche, managing director with Brinson Patrick Securities Corp., explained that the cost of capital is derived from three sources: the price discount, the warrant coverage and the investment banking fees.

ATMs win on all three fronts because the shares are sold at the current market price, there are no warrants and the fees generally are lower than with other financing vehicles, Wyche said.

ATMs also offer a "tremendous amount of flexibility," explained Eric Benevich, Avanir's vice president of communications.

In Avanir's case, significant financing activity is on the back burner until the second half of next year, when potential FDA approval of Zenvia (dextromethorphan/quinidine) for pseudobulbar affect could trigger major stock movement. But Avanir still wanted to tap into the stock bumps it could get from smaller milestones along the way.

Enter the ATM. Avanir filed a $35 million shelf last spring and set up an ATM for the sale of 12.5 million shares. Last week, the Aliso Viejo, Calif.-based company raised $10.6 million by selling 4.5 million shares into the market through a controlled equity offering facility managed by Cantor Fitzgerald & Co.

Benevich said the ATM allowed Avanir to take advantage of the liquidity and stock bump that followed Zenvia's Phase III data earlier this month and gave the company "a little cushion" to carry it into 2011.

He added that a traditional offering would have required raising more money than Avanir really needed, creating unnecessary dilution.

Wyche noted that an ATM also can be used opportunistically to take advantage of the ripple effects of news within a hot sector, such as for companies working on swine flu vaccines.

But ATMs aren't for everyone. Issuers must have liquidity to the tune of at least $250,000 worth of daily trades, Wyche said. And ATMs generally can't be used for substantial raises: Issuers can expect to raise 10 percent to 20 percent of their average daily trading volume value, according to Wyche.

For now, ATMs remain a rarity among biotech circles. Besides Avanir, they've been used by Antigenics Inc., Novavax Inc., Peregrine Pharmaceuticals Inc., Spectrum Pharmaceuticals Inc. and just a handful of others, with one or two deals taking place each year. Across all industries, however, ATM usage has quadrupled in 2008 and early 2009 compared to previous years.

Wyche predicted the biotech industry will catch up as awareness grows, although most banks don't push ATMs because of the lower fee structure.

Benevich, too, said he expects interest in ATMs to increase and added that Avanir is likely to get plenty of questions about its financing from other biotechs as it hits the conference trail this fall. ■