

Handy Tool for CFOs

ATM Financing Provides Effective Access to Cash

By Peter Winter
Editor

Biotechnology companies have an insatiable appetite for cash to fuel their drug development programs. However during the past several years, apart from the industry's "blue chip" companies, the majority of biotechs have been forced into a strict diet as financing has become more difficult and costly to secure. With follow-on financings becoming challenging and costly to complete given the current state of the capital markets, publicly listed companies are turning to alternative forms of financing. One of these vehicles is at-the-market (ATM) financing.

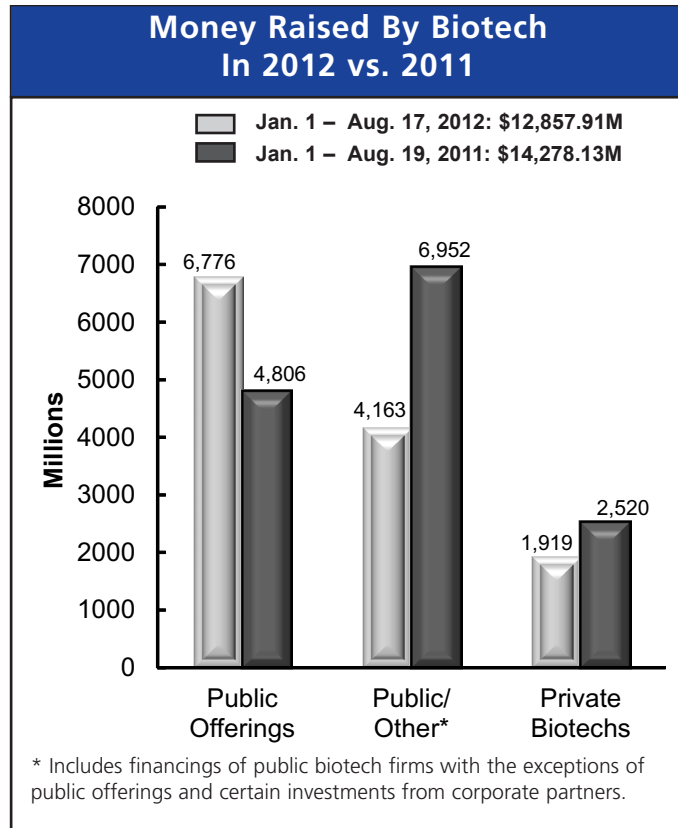
Although in the past the life sciences industry has tended to shy away from ATMs, these vehicles have been used very effectively in other industries for more than 20 years, Todd Wyche, founder and managing director of boutique investment bank Brinson Patrick Securities Corp. told *BioWorld Insight*.

The reason for this state of affairs is that biotech company execs have held the belief that these offerings are only used after problems have been encountered with more traditional transactions, such as follow-on offerings, registered directs and private investments in public equities (PIPEs), he noted.

ATMs enable publicly traded companies to tap into the existing secondary market for shares on an as-needed basis. This is why ATMs are now being employed more frequently as companies become more familiar with them. And Wyche has numbers to back this up. His company, which specializes in ATM transactions, has been tracking their use for several years.

Use of ATMs Increasing

According to their analysis, U.S. life sciences companies raised a record \$90 million through 20 ATMs in the first quarter of this year. This dollar amount represents the highest single-quarter usage of ATMs by companies in the healthcare industry segment, the analysis finds. The dollar amount raised in the first quarter represented a 36 percent increase compared with the first quarter of 2011. Life sciences companies raised approximately \$66 million through



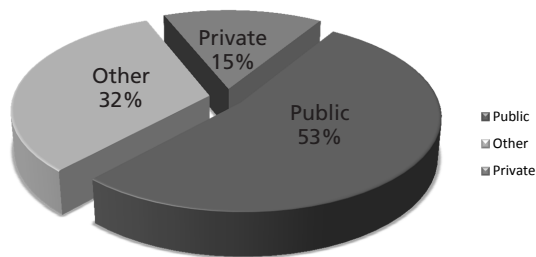
22 ATMs in the same quarter last year. On a quarter-over-quarter basis, ATM usage in the first quarter of 2012 represents a 62 percent increase from \$56 million raised through ATMs in the fourth quarter of last year.

These data, Wyche explains, are evidence of the fact that ATMs provide flexibility and just-in-time capital with minimal dilution of stock. An exchange-listed company incrementally sells newly issued shares into the trading market through a designated broker-dealer at prevailing market prices, rather than via a traditional underwritten offering of a fixed number of shares at a fixed price all at once.

Some of the life sciences companies that used ATMs to raise capital in the first quarter included Threshold Pharmaceuticals Inc. (NASDAQ: THLD), South San Francisco, Calif; Cerus Corp. (NASDAQ: CERS), Concord, Calif.; Celldex Therapeutics Inc. (NASDAQ: CLDX), Needham, Mass.; and Avanir

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Money Raised By Biotech: Jan. 1 - Aug. 17, 2012



PUBLIC OFFERINGS	53% (\$6,776M)
PUBLIC/OTHER	32% (\$4,163M)
PRIVATE BIOTECHS	15% (\$1,919M)

ATMs

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Pharmaceuticals Inc. (NASDAQ: AVNR), Aliso Viejo, Calif.

ATMs are not suitable where large amounts of capital might be needed quickly, "but a company can raise approximately 10 percent to 15 percent of its trading volume without adversely affecting stock price," Wyche said.

ATMs are generally less expensive and less complicated to execute than traditional equity offerings and do not require a lot of executive time. For example, there are no required executive road shows. This is in contrast follow-on offerings, registered directs and PIPEs, which can prove costly to complete and often add up about 35 percent of the raised capital. This is why ATMs are being employed more frequently as companies become more familiar with them.

Public Financing Picks Up

The use of alternative financing vehicles, such as ATMs, has certainly helped feed the appetites of biotech companies this year. According to data from *BioWorld Snapshots*, \$405 million was raised from

seven follow-on financing deals in July alone, which is normally considered a slow month for the sector. This compared to just \$140 million that was raised from five follow-on financing deals in the same period in 2011.

Topping the follow-on deals in July was Synageva BioPharma Corp., of Lexington, Mass., which closed a \$115 million public offering of 2.8 million shares, including 364,200 shares issued as over-allotments, at a price of \$41.20 each. Proceeds, the company says, will be used to advance its pipeline of orphan disease drugs, including a lead program targeted at lysosomal storage disorder (LAL deficiency). (See *BioWorld Today*, July 11, 2012.)

The same trend was observed in alternative financing. Biotech companies generated \$374 million in July from 16 deals that revealed financing terms compared with \$248 million generated from 17 deals in the same period in 2011.

Notable among these financings was Nektar Therapeutics Inc.'s private placement of \$125 million of 12 percent senior secured notes due 2017. The notes are callable by Nektar beginning in July 2015, subject to certain prepayment premiums and conditions, and are not subject to financial performance targets. The company plans to use the proceeds toward the repayment of its convertible subordinated notes due Sept. 28. The company is developing drugs based on its PEGylation and advanced polymer conjugation technology platforms. (See *BioWorld Today*, July 11, 2012.)

It appears that public biotech companies have been taking advantage of a bullish run that has seen the sector gain increased share value steadily since the beginning of the year. In July, for example, the 212 biotechnology public companies tracked by the *BioWorld Stock Report* saw their collective share values increase by an average of over 5 percent. The NASDAQ Biotechnology Index increased 3 percent in July and is up a whopping 28 percent year-to-date. The Dow Jones Industrial Average (DJIA) increased 1 percent in July and is up 6.5 percent YTD.

These data could be a prelude to a very strong second half of the year for public biotech companies. ■