At-the-market (ATM) offerings are emerging as an important financial option for life science company CFOs. This is evidenced by a significant uptick in ATM use in recent years. Data reported for 2011 shows that 35 U.S. life science companies used ATMs to raise more than $224 million compared to the 26 that raised $184 million in 2010, a 22% increase, and compared to just $21 million via two active ATMs in 2007.

ATMs have been used by experienced CFOs at large-capitalization issuers for over 20 years. More recently, ATMs are rapidly becoming a more widely used financing tool by smaller capitalization issuers as well. Despite the significant growth in both active ATMs and gross proceeds, some life science issuers might be missing out because of misunderstandings that CFOs, other C-level executives, and board members have about ATMs.

The most common misunderstandings are 1) Announcing an ATM offering will depress a company’s share value comparable to traditional follow-on offerings, 2) ATMs are the same as an equity line of credit, 3) ATMs are a financing vehicle of last resort; 4) ATMs are appropriate for only small companies. Each of these items will be addressed in this article.

Misunderstanding #1: Announcing an ATM offering will depress a company’s share value comparable to traditional follow-on offerings

Announcements of follow-on equity offerings 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, following an ATM announcement, the share price will fall at a comparable rate to traditional follow-on offerings. In fact, this assumption is incorrect.

Data on life science 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 (Figure). Based on equity offerings during the first five months of 2012, the stock price decline following announcements of conventional follow-on offerings was about seven percent whereas ATM announcements generated a small 1.5 to three percent decline.

Misunderstanding #2: 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 financ-
In an equity line of credit, shares are sold by the issuer at a discount from the market price to a hedge fund. It is believed that these hedge funds tend to flip those shares on the market at the market price, profiting from the differential. In this scenario, the market sales 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 only cost to the issuer is a fee that is based on a predetermined 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?

*Misunderstanding #3: 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 science industry, the opposite is true. ATMs are a critical component contained in their financing toolbox. 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 of 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. ATMs can generate proceeds cost-effectively with the timing and price at the discretion of the issuer. They 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.

Because of its strategic nature, an ATM can be employed to complement other financing vehicles that a company wished to employ. This increases the financial flexibility for a company. It can first utilize an ATM to raise capital in a cost-effective manner, and if additional capital is needed, particularly in a short time frame, a more traditional method can be employed, though at a higher overall cost.

*Misunderstanding #4: ATMs are appropriate for only small companies*

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

In fact, ATM-offering data indicates that ATMs are used by companies of all market capitalization ranges. Since 1999, over $50 billion has been raised by U.S. companies across a wide range of industries, both big and small, through the use of ATM offerings.

Life science companies using ATMs have been generally smaller than those from other industries, but this may be a function of the relative novelty of ATMs in this sector and the very strong cash flows that are generated by profitable large life science companies, mitigating the need for active financing vehicles.

Strategic CFOs in the life science 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 science issuers might be missing out because of misunderstandings of what ATMs provide and how they work.

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.

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