

**Biobusiness**

WALL STREET BIOBEAT

# Uncertainty & Cautious Optimism Define Last Year's Performance

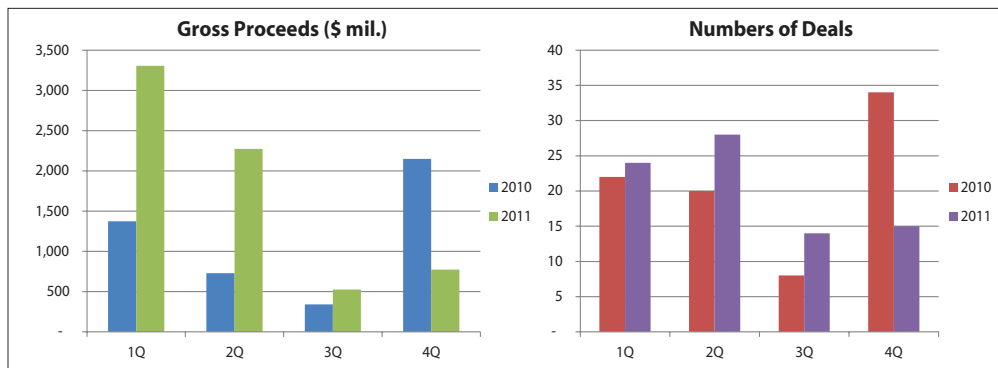
## Highs and Lows Characterize 2011

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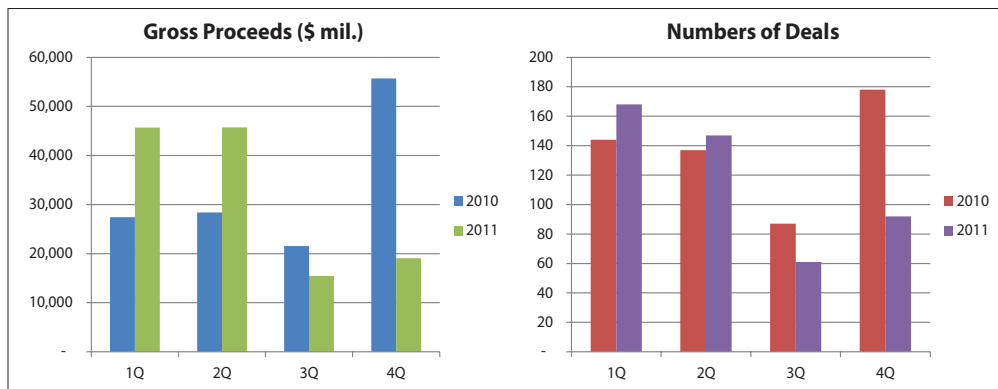
2011 was an uneven year for registered follow-on equity offerings (defined as Securities and Exchange Commission (SEC)-registered transactions) in the life

science industry. The first half of 2011 continued the strength that emerged in the fourth quarter of 2010 (Figure 1). The second half of 2011 was weak both in the amount of capital raised and in the number of transactions completed. These results reflected the challenging environment for financial markets worldwide in the second half of 2011 that followed optimistic expectations during the first half of the year.

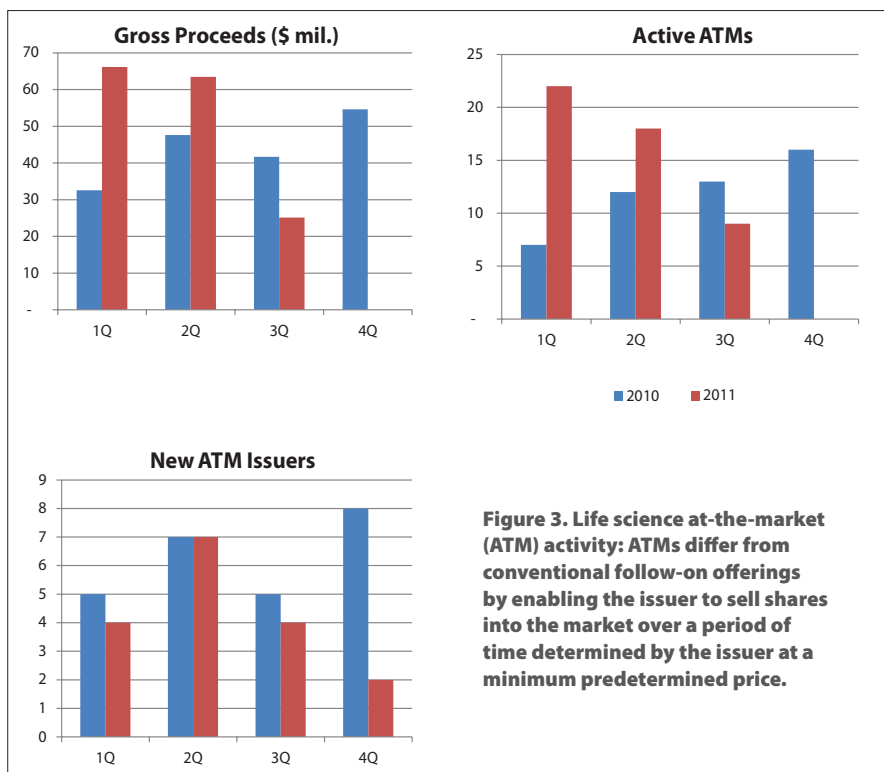
Registered follow-on equity offerings for life science companies suffered at least as badly if not worse than registered follow-on offerings for companies across all industries (Figure 2). However, the life science sector began to show strength in the second half of December, and life science stocks continued the trend deep into January. Therefore, although much of the global capital market challenges from 2011 remain, we believe that a sentiment of cautious optimism for



**Figure 1.** Life science follow-on activity on a quarterly basis



**Figure 2.** Total follow-on activity on a quarterly basis across all industries



**Figure 3. Life science at-the-market (ATM) activity: ATMs differ from conventional follow-on offerings by enabling the issuer to sell shares into the market over a period of time determined by the issuer at a minimum predetermined price.**

life science capital markets overlays the general economic uncertainty.

At-the-market (ATM) offerings followed a similar trajectory as conventional follow-on offerings (Figure 3; fourth-quarter gross proceeds and active ATM data not available at time of writing), although the decline in gross proceeds in the third quarter of 2011 vs. the second quarter of 2011 was less (-60% compared to conventional offerings decline of -77%).

New sign-ups of ATM offerings in the fourth quarter remained sluggish though the sign-ups that were recorded occurred late in the quarter during a period when life science stocks began to rally.

As a reminder, ATMs differ from conventional follow-on offerings by enabling the issuer, through an agent, to sell shares into the market over a period of time determined by the issuer at a minimum predetermined price (see Shopping for Financing: “At-the-Market”, GEN, January 15, 2012). By design, they are flexible financing vehicles that enable the issuer to maintain control of its capital-raising activities including the timing of share sales.

Both the number of and the amount of capital raised through conventional follow-on offerings and ATM offerings reflected

performance of the equity markets. The S&P 500 and the AMEX Biotechnology Index (BTK) increased 5% and 13%, respectively, in the first half of 2011. Both indices declined in the second half of 2011, -5% for the S&P 500 and -25% for the more volatile BTK.

### What to Expect in 2012

Cautious optimism for 2012 appears to overlay the uncertainty surrounding the global capital markets. This was certainly the general consensus that we observed as we spoke with life science executives and fellow members of the life science financial community during the J.P. Morgan Healthcare Conference in San Francisco in January.

This optimism was also reflected in a strengthening of the life science equity market that began in mid-December. The BTK was up 24% from December 15 through the close of trading on January 19.

There is preliminary evidence that this optimism is being reflected in capital markets activity. Both the amount of capital raised and the number of transactions in the fourth quarter of 2011 increased slightly for follow-on offerings off of a low third quarter 2011 base.

ATM activity may be more promising in 2012. Although a full set of 2011 ATM data will not be available until late February, the new signups that occurred in the fourth quarter occurred on or after December 14, a period of life science stock strength. In addition, the number of issuers with available ATMs (net of expirations) continued to increase to 45 (+22% vs. 4Q10) in the fourth quarter of 2011.

ATM issuers have the ability to sell shares into this strength quite quickly, so we would expect that some issuers have done just that. If the rally is sustainable beyond January, we believe that life science ATM proceeds could show the first increase since the second quarter of 2011.

Conventional follow-on offerings are likely to show some strength as well. However, the sustainability of the recent life science stock rally is uncertain. Therefore, the opening and eventual closing of a financing window is also uncertain. Forward-looking and strategically focused management teams will have a number of tools in their financing toolkit to deal with this uncertainty. Being overly reliant on conventional follow-on offerings may catch less experienced life sciences companies off guard.

### Conclusion

Cautious optimism regarding the capital-raising environment for life science companies appears to be the consensus view for 2012. Fourth quarter follow-on offering data suggest that the most recent down period for financing has bottomed. Improved life science equity share performance since mid-December bodes well for financing if the trend can be sustained.

In our field of ATMs, we believe that this financing vehicle is well positioned because of the current market strength, the continued increased number of available ATMs, and the key attributes of ATMs such as flexibility, control, and low cost relative to conventional financing vehicles.

**GEN**

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