Raising Life Sciences Capital: An Alternative Way

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There are various strategies public life sciences companies use to raise equity capital. Common approaches are conventional financing vehicles such as marketed follow-on offerings, registered directs, and private investments in public equities (PIPEs). These methods require selling shares in large quantities at a fixed price at one specific time.

However, a financial strategy that has become more popular for these companies over the past few years is an at-the-market (ATM) financing vehicle. An ATM offering involves selling newly issued shares to the existing market at market prices via a broker-dealer over an extended period of time. It allows a company to maintain control of its capital raising activity while minimizing cost and share dilution.

The Risks Of Traditional Financing Strategies

The various traditional approaches to raising capital have proven to be beneficial and allow companies to raise a significant amount of capital in a short period of time. However, a life science company depending solely on traditional financing strategies to raise capital may encounter risks associated with these financial strategies.

The risks that can affect traditional financing strategies can be both external and internal. A prime example of an external risk would be a volatile market. This can cause a company to do financing during a time its stock price is not at a valuable price point. Internally, a company can plan for events such as an upcoming partnership or a data announcement that does not turn out the way they were expected. These risks could lead to delays in financing or result in a financing not as successful as planned.

Traditional financing for a life sciences company can become costly and could total about 35% of the raised capital. Traditional finance offerings typically are announced at an average discount to the prior closing price of about 7.5% and underwriters' fees run roughly 5%. Another cost that is encountered is warrants, the value of which can average 24% of a transaction or higher. Companies that are running out of capital will confront costs above these numbers.

These issues have resulted in life sciences management teams looking into alternative financing strategies, such as ATMs.

Adding An ATM Offering To The Financial Toolbox

ATM offerings allow public companies to avoid the risks and costs that are often associated with more traditional financings. This is because ATMs raise capital for the issuer in a manner very different than a conventional offering. With an ATM, a company sells shares, through a broker-dealer acting as an agent, incrementally over a period of time into the existing trading market in amounts and at prices determined by the issuer. Unlike conventional follow-on offerings, ATMs enable the issuer to maintain control of its capital-raising activities. A company can choose when to sell shares, including times when the market is volatile, because ATMs give companies the flexibility to sell shares only on days that are advantageous for the company.

ATMs do not preclude companies from also using other types of financing vehicles. Rather, an ATM can work in conjunction with other financing vehicles in a company's financial toolbox. A company can employ both traditional financing strategies and ATM offerings. Doing both adds another layer of flexibility for a company. It can first utilize an ATM to raise capital very cost effectively and then if additional capital is needed, it can use conventional methods that are usually much more expensive. A forward-thinking company can also take advantage of an ATM and raise the needed capital over an extended period of time rather than hoping that market conditions will allow a conventional offering when the need for capital arises.

Another benefit of including an ATM in a company's financial toolbox is the relatively low cost of engaging an ATM. As we mentioned above, a conventional offering can cost about 35 percent of the capital raised in a transaction if warrant costs are added to the price discount after the deal is announced and fees are paid to the underwriters. The main cost associated with an ATM is the underwriting fee, averaging 3.8 percent, which is generally a straight percentage of the capital raised. There are no warrants or commitment fees that are part of the transaction.

Todd Wyche is a founder and managing director of Brinson Patrick. Mr. Wyche's leadership has been integral in the growing use of at-the-market offerings by issuers in the life sciences industry.