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# Life Sciences Firms' Use Of At-The-Market Financing Vehicle Rising

*ATM transactions by U.S. life sciences firms totaled $90 million in the first quarter of 2012, says Brinson Patrick, the highest volume since the investment bank began tracking such financings in 1999.*

In one sense, $90 million seems like a drop in the bucket, even in the often cash-strapped biotechnology sector. But that sum, the record-setting total of at-the-market financings done by life sciences companies in the first quarter of 2012, while roughly equivalent to three or four generous Series A venture rounds for start-up biotechs, nonetheless reflects growing usage of the ATM vehicle.

Once largely the domain of real estate firms, ATMs increasingly seem well-matched to the financing demands of biotechs, for whom carefully planned milestone-to-milestone fundraising schemes often face hurdles and setbacks. And so, more and more biotech chief financial officers are adding the ATM vehicle to their diversified financing toolkits, Todd Wyche, managing director of Brinson Patrick Securities Corporation, said in an interview.

Brinson Patrick, a pioneer in the ATM space since its founding in 1996, also has tracked ATM volume by industry and sub-industry since 1999 via a proprietary database. And the first-quarter volume of $90 million over 20 transactions by U.S. life sciences firms – including Threshold Pharmaceuticals Inc., Cerus Corp., Celldex Therapeutics Inc. and Avanir Pharmaceuticals Inc. – was a 36% increase over the previous quarterly high of $66 million, over 22 transactions, in the first quarter of 2011.

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>
> **– Todd Wyche, managing director, Brinson Patrick Securities Corporation**

Brinson Patrick and other ATM underwriters have increased their focus on attracting life sciences companies, including biotechs, as clients because such companies "have such a high cost of capital," Wyche explained. "The ATM provides a mechanism for them to avoid unnecessary dilution in raising capital and helping them move their products through the development cycle," he added.

All the same, Wyche concedes there is an awareness and education challenge facing his firm and others like it. The ATM – an offering of common stock from a shelf-registration statement into an existing trading market for outstanding shares of the same class at a non-fixed price – is less well known or understood than the follow-on public offering, registered direct offering or the private investment in public equity (PIPE) vehicle.

## Several Tactical Advantages

According to an online Frequently Asked Questions document by Ze'ev D. Eiger, of counsel to the law firm Morrison & Foerster LLP, ATMs offer issuers several advantages over other fundraising vehicles: minimal market impact, flexibility, low cost and minimal management involvement.

ATMs have less market impact than a FOPO or registered direct offering because they enable the issuer to quickly raise capital by "selling newly issued shares into the natural flow of the market, without having to market and/or announce the offering," Eiger wrote. Therefore, shares gradually trickle into the market without impacting the stock price and other investors cannot "short" the issuer's stock since the timing of the transaction is not known ahead of time.

The transactions are flexible because they can be executed on an agency or principal basis – the issuer and underwriter set terms of sale which can include timing, size and a floor price for shares. The transactions are inexpensive, with fees ranging between 1% and 3% of the total offering. And because no roadshows or significant prospectus preparation are required, ATMs require very little time investment from the issuer's management, Eiger said.

On the negative side, ATMs are smaller transactions that won't be very useful to an issuer needing to raise significant sums of capital. And they are registered offerings. "Despite enabling issuers to trickle shares into the market,

[ATMs] are not as stealthy as private placements, including PIPE transactions, which are announced only after pricing and for which resale registration statements are filed only after closing," Eiger wrote.

Wyche stressed the affordability of ATMs, noting that more traditional transactions have a cost of capital that can reach as high as 30% once market reactions, pricing discounts, warrants and fees are factored in.

"PIPEs, registered direct offerings or other types of traditional follow-on offerings are very expensive for biotech companies and growth companies in general," he said. "When you look at the discounts to market price that issuers have to pay in these traditional deals to entice investors to participate, and particularly the warrants that issuers generally have to offer to entice investors, it's very expensive for biotechs to raise capital. … It's an order of magnitude less expensive to raise capital this way."

Also, biotechs are looking for more flexible methods of raising capital than relying upon the rigid milestone-to-milestone model in hopes of a value inflection point that will enable a company to raise more capital at a higher per-share price, Wyche explained.

"Over time, the milestones don't always happen on time or the market doesn't perceive the data announcement as favorably as the issuers hope," he said. "Then, companies find themselves in a situation where they're almost out of capital or there's a delay – they're over a barrel and have to do a traditional financing, and that's when capital is going to be the most expensive. CFOs and management teams are trying to raise capital incrementally and more smoothly."

Biotechs using ATMs as a smaller, incremental method of fundraising may be increasing but they are reluctant to talk about their decisions or the results they get. Several biotechs using the ATM vehicle declined requests to be interviewed. Wyche attributes that reluctance to some of the same factors that can drive dilution and costs for FOPOs and other fundraising methods.

"One of the costs of capital is the stock-price decline that happens around traditional kinds of financing transactions," he said. "If you look at how a stock trades around a traditional financing, it often trades down, it could be 10% or 15% before a deal is priced, and then you add all of the other costs. … When it's time to price the offering, the deal is often priced at a discount to this already depressed price. And then on top of that, development-stage biotechs often have to offer warrants. Biotech companies are looking to avoid that stock-price decline, which results in unnecessary dilution for their existing shareholders."

## Life Sciences' Use Increased In 2011 Over 2010

Just as the first quarter of 2012 saw an increase in life sciences ATMs over the previous record-setting quarter of first quarter 2011, ATM usage by U.S. life sciences companies increased during full-year 2011 compared with 2010, Brinson Patrick reports. Life sciences companies raised $224 million in ATM offerings during 2011, a 22% increase over the 2010 total of $184 million.

Despite the fact that both quarterly volume records have been set in the past two January-through-March periods, Wyche said there is nothing particular about ATMs that encourages their use early in a business' fiscal year (assuming most biotechs use a January-through-December business year.)

"I think it's slightly coincidental but also has to do with the overall market environment," he said. "Overall capital raising is slightly higher in the first and fourth quarters, and lower in the second and third quarters. Not just with ATMs, but I think that's an overall pattern."

**2011 ATM Raises by Life Science Industry Subsector**

| Industry Sub Sector | Gross Proceeds | % of Total Gross Proceeds |
|---|---|---|
| Drugs | $181.4 million | 81% |
| Non-Drug Therapeutics/Vaccines | $23.8 million | 11% |
| Life Science Products/Technologies | $18.4 million | 8% |
| **Total** | **$223.6 million** | **100%** |

Source: Data provided by Brinson Patrick Securities Corporation; breakdown analysis done by "The Pink Sheet" DAILY

ATMs completed by life sciences firms in 2011 ranged in size from $37.45 million (one of only two such offerings last year that produced proceeds over $20 million) raised by the oncology specialistAEterna Zentaris Inc. to $87,732 raised by Cardica Inc., a manufacturer of surgical products. The second-largest ATM raise in life sciences last year was the $33.54 million brought in by Peregrine Pharmaceuticals Inc.

"The Pink Sheet" DAILY, using Brinson Patrick data, performed a breakdown analysis of full-year 2011 data to determine which life science industry subsectors had raised the most through the ATM vehicle. Based on nearly $224 million of such transactions, the firm found that companies that develop and sell drugs made up nearly 81% of all ATM issuance ($181.4 million), followed by companies that specialize in non-drug therapies or vaccines at 11% ($23.8 million).