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Common Misunderstandings of an Emerging Financing Vehicle: At-the-Market Offerings

by Todd Wyche

At-the-market (ATM) offerings are an important financing option for CFOs of life sciences companies and have been used by experienced CFOs at large-capitalization issuers for over 20 years. In recent years, this financial tool also has been more widely used by smaller capitalization issuers. Despite the significant growth in both the number of active ATMs and gross proceeds raised, some life sciences issuers are missing out because of misunderstandings held by CFOs, other C-level executives and board members about ATMs. It is important to recognize the common misunderstandings of ATMs, as well as clear explanations for each, so that the alternative financing vehicle is better understood.

’ATMs are a financing vehicle of last resort’

One of the most common misunderstandings about ATMs in the life science industry is that the offerings are used only by companies that are unable to complete more traditional transactions, such as 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 sciences industry, the opposite is true. ATMs are a critical component contained in their financing toolboxes. 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 for 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. Using an ATM, issuers can cost-effectively raise capital while maintaining flexibility in the timing and pricing of the offering. ATMs 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. Therefore, ATMs are best considered as an option for a company with a strategic and forward-looking approach rather than for a company in financial distress.

Forward-thinking CFOs focused on minimizing unnecessary dilution tend to first utilize an ATM to raise capital in a cost-effective manner. If after utilizing an ATM additional capital is needed, particularly in a short time frame, a more dilutive traditional method can be employed.

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

Announcements of follow-on equity offering in the life sciences typically result in a drop of the stock price. Stock price drops of ten percentage points are fairly common. As 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 as traditional follow-on offerings. This assumption is incorrect.

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Based on equity offerings during the first seven months of 2012, the stock price decline following announcements of conventional follow-on offerings was a little more than 7 percent whereas the stock price slightly increased on average following ATM announcements.

	Stock Price Impact After Deal Announcement			
Date 1/2/2012 – 7/12/2012	+3 Days	+5 Days	+10 Days	Number of Deals
Traditional Follow-on	-8.23%	-8.28%	-7.18%	79
ATM Offering	-2.40%	-1.29%	0.30%	14

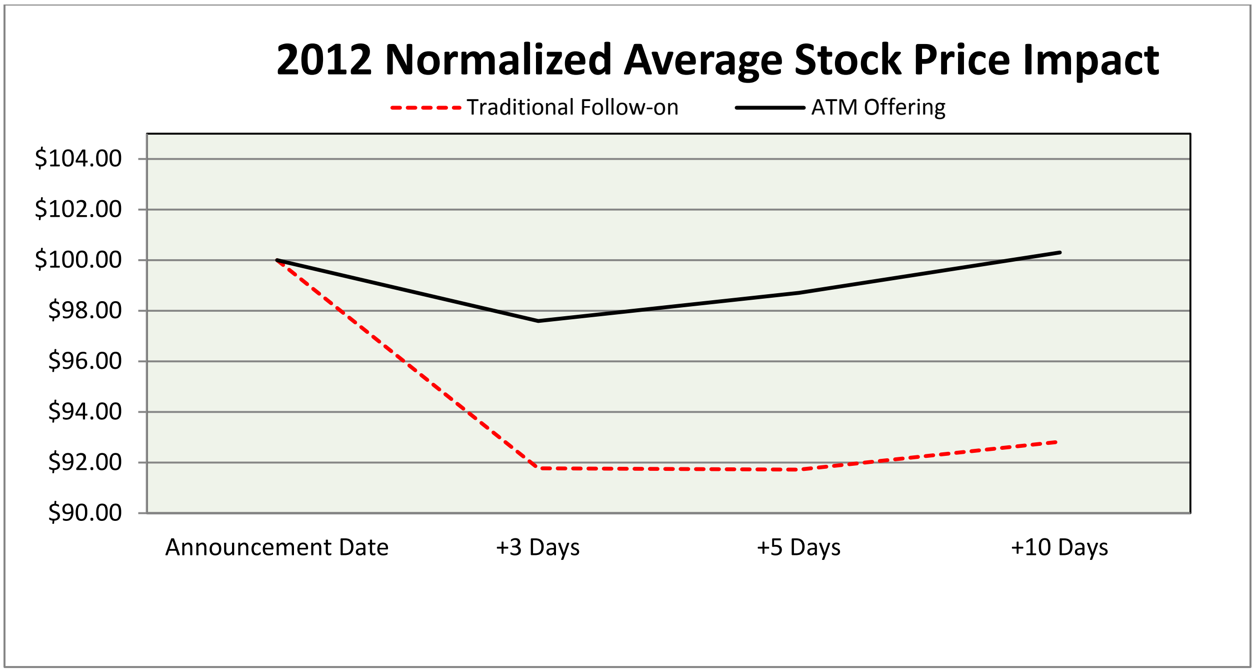

Exhibit 1. Stock prices increased slightly following ATM announcements compared to significant stock price declines following conventional follow-on offering announcements.

’ATMs are the same as an equity line of credit’

As a result of their seeming similarities, ATMs are often equated to equity lines of credit. In reality, the two financing vehicles are quite different. The only similarity is that newly-issued shares are sold in the open market. Beyond that, their characteristics diverge

In an equity line of credit, shares are sold by the issuer at a discount to the market price to a hedge fund. It is believed that these hedge funds tend to flip those shares into the market at the market prices, profiting from the price differential. In this scenario, the sales into the market 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 cost to the issuer is a fee that is based on a pre-determined 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?

’ATMs are only appropriate for small companies’

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

In fact, ATMs are used by companies of all market capitalization ranges. Large-capitalization companies that have recently employed ATM offerings include Bank of America, Boston Properties and Ford Motor Company.

Life sciences companies using ATMs have been generally smaller than those from other industries, but this is because the largest life sciences companies typically do not need to raise any capital. Big or small, any company has the ability to raise significant amounts of capital through an ATM strategically.

Conclusion

Strategic CFOs in the life sciences industry are increasingly employing ATMs because they enable companies to better control the financing process and the relatively low cost compared to more traditional follow-on financing vehicles. Despite this growth, some life sciences 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.