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ATMs On the Rise

by Joe Gose

Prior to 2008, at-the-market (ATM) offerings were virtually non-existent. But thanks to expanded shelf offering rules and a rough financing market, ATMs are becoming more prevalent as growth companies pursue capital-formation strategies. The offerings, which are conducted at the company's request with newly issued shares at market prices, in a short time have become more widely used than equity lines.

This year more than $190 million has been raised of a total potential of over $2 billion in 43 ATM offerings through the end of September by emerging growth companies with market caps from $10 million to $1 billion, according to *PlacementTracker*. This year's ATM deal pace has already matched that of all of 2011, when $628 million was raised by issuers in 43 deals. And while early on real estate investment trusts (REITs) were the predominant ATM issuers, issuers in a broad range of sectors are now employing the offerings, especially life science companies.

Traditionally life science issuers have raised capital around milestones, expecting a positive market take on pending news that will lead to higher stock prices and the ability to raise more money at higher valuations, said Todd Wyche, CEO of New York-based **Brinson Patrick Securities Corp.**, a boutique investment bank that specializes in ATMs.

"But we know that milestones get delayed and/or news isn't received as positively as issuers expected," Wyche said. "When that happens, the issuers find themselves with very little capital and over a barrel in having to raise capital … in deal structures that can be onerous and especially dilutive to existing shareholders."

Indeed, traditional PIPE costs can total 30% when factoring in placement agent fees, a steep price discount to attract investors, and warrants, he said. Thus, it's understandable why life science companies as well as growth companies in general are putting ATM programs in place, he added. ATM agents that sell a growth company's shares into the market generally charge commissions of 2% to 3%.

Boards of directors, however, frequently don't know how to comparison shop between ATM programs and other financing options once an issuer has an effective shelf, said Adam Epstein, founding principal of Danville, Calif.-based Third Creek Advisors, a provider of corporate finance and capital markets guidance to small cap companies.

In particular, Epstein said, boards may not appreciate how much money a company really needs or whether trading volume is sufficient to raise capital in a timely manner. Boards also need to consider what kind of deal is going to cause the least amount of dilution: Because ATM issuers sell shares off a shelf, they're also eligible for registered direct offerings and confidentially marketed public offerings (CMPO), he added.

Lastly, he said, boards need to perform due diligence on stock price performance during prior ATM financings handled by banks to see if there are any conflicts of interest.

"I don't think there's anything wrong with ATMs in theory – I think it's a great idea," Epstein acknowledged. "There are just a few issues that boards need to appropriately take into account."

Expanding Slice of EPP Market

The rapid growth of ATM issuance is clear evidence that EGC management teams consider ATMs a great idea, too. The rising number of growth company ATMs continues a decidedly upward trend from 2008, when such companies put just four programs in place.

"One of the factors that has been driving the adoption of at-the-market offerings is that CFOs and management teams want to have more tools in their financing toolkit; they don't want to be overly reliant on any one way to raise capital," said Wyche, whose firm, among other engagements, is acting as exclusive agent for **Opexa Therapeutics' (OPXA)** $2.6 million ATM. "As time goes on, more companies are hearing about ATMs and about the success that peers are having in raising capital, and so they're putting programs into place."

It appears that ATMs are putting a dent in equity line deals, too. While equity line activity has generally been volatile from year to year, issuers in 2012 have so far put 10 equity lines in place totaling $157 million. In all of 2011, companies agreed to 24 equity lines valued at $495 million.

"A number of issuers we're talking to have either replaced their equity lines with ATMs or are talking about doing it," Wyche said.

Broadening Appeal

What's more, growth companies from a variety of sectors are taking up ATM programs. In 2009 more than half of the issuers were real estate investment trusts (REITs). But in 2011, biotech and pharmaceutical companies were behind 15 of the 43 ATMs, while REITs launched seven deals.

So far this year, biotech and pharmaceutical issuers have accounted for 14 of the 43 agreements and REITs have announced

12. Issuers in the oil and gas, healthcare products and financial sectors are also well represented among ATM users. On the other hand, REITs continue to use the vehicle with the most frequency in deals involving issuers with market caps exceeding $1 billion. So far this year, they've accounted for 29 of the 42 large cap ATMs.

Another difference between small and large companies using ATMs is showing up in the cost of capital. On average this year, growth companies are paying commissions of 2.7% while issuers with market caps exceeding $1 billion are paying 1.8%.

Also this year, share prices of ATM issuers have declined an average of nearly 2% three days following the announcement of an agreement. Biotech and pharmaceutical companies saw their share prices slide about 3% three days following an announcement, while REIT shares were higher by 1.1%.

By comparison, stock prices at issuers that have completed CMPO and registered direct deals this year have dipped 2.5% three days following the deals. Biotech and pharmaceutical company shares have ticked down an average 1.3% three days after such transactions. (The CMPO/registered direct three-day performance calculation excluded a deal issued by **Rosetta Genomics (ROSG)**, which saw its shares skyrocket a dataset-skewing 240%.) CMPO and registered direct issuers paid placements agents about 5.8%, on average.

West Plains, N.Y.-based **Acadia Realty Trust (AKR)** has had one of the most successful capital-raising campaigns of any issuer that has commenced an ATM program in 2012. The company announced a $75 million offering in late January when its shares were trading for $21.12, and its shares were 20.5% higher on Sept. 24. The shopping center REIT raised $65.7 million by the end of the second quarter in drawdowns that had an estimated average price of $22.18 a share. In August, Acadia Realty announced a $125 million ATM offering.

The REIT agreed to a 2% fee in both transactions, which feature **Bank of America Merrill Lynch**, **Barclays Capital**, **Deutsche Bank Securities** and **Wells Fargo Securities** as co-agents. **Goldman Sachs & Co.** has been added to the agent roster for the second deal.

Cambridge, Mass.-based **Zalicus (ZLCS)**, meanwhile, has fulfilled two ATM offerings of $15 million each this year. But the stock price of the developer of pain and inflammation drugs plummeted in mid-September when it decided to scrap its rheumatoid arthritis therapy following poor clinical results.

Zalicus announced its first program in early January when its stock was trading for $1.27 a share, and it sold stock through late March for an average price of $1.07 a share. The issuer launched its second ATM offering in June, when its stock was trading for $1.44 a share, and received an estimated average price of $1.15 a share for its stock. Its shares were recently trading around 82 cents.

Exclusive selling agent **Wedbush PacGrow Life Sciences** earned a fee of 2.5% in the first transaction and a fee of 2% in the second. **X**

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