From 2 to 29 Offerings in 4 Years

Popularity of ATMs Continues To Grow, Record High in Q3

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As biotech executives look to get off the treadmill of financing their companies from milestone to milestone, at-the-market (ATM) offerings have become more popular. According to Brinson Patrick Securities Corp., use of ATM offerings by life sciences companies reached a record high in the third quarter.

During this period, 20 companies raised more than $112 million, nearly three times the amount raised in the year-ago quarter. It's been a banner year for the alternative option for raising capital. The $267 million of capital raised through the first nine months of the year exceeds the total for all of 2011 by 20 percent.

Part of the year-over-year increase is due to a general uptick in the amount of capital that life sciences companies have raised; traditional follow-on offerings have also exceeded last year's total already. But there does seem to be a general increase in the usage of ATM offerings compared to traditional follow-on offerings. Last year, ATM usage was 2.9% of traditional follow-on offerings, which has crept up to 3.2% of follow-on offerings through mid-December with one more quarter of ATM data left to compile.

ATM offerings provide more flexibility because companies can sell shares in small tranches as the cash is needed unlike traditional larger secondary offerings.

"The timing of the more traditional kind of follow-on or PIPE transactions can be tricky. Issuers have to worry about when the window is open and when it's closed," Todd Wyche, CEO of Brinson Patrick, told *BioWorld Insight*.

In addition to the flexibility, the explosion in popularity of ATM offerings is tied to their relative cost compared to traditional financing options. As the name implies, ATM offerings allow companies to sell shares at the current market price on the exchange directly to investors, so there aren't discounts and warrants that need to be added to sweeten the deal. The cost of selling shares in an ATM offering is typically around 3 percent, considerably cheaper than the 6 percent fee that investment banks typically charge for a secondary offerings.

But those were all the advantages that ATMs had back in 2008 when Brinson Patrick recorded just two ATM offerings in the life sciences. Wyche, who's been focused on ATMs for 16 years, pointed out that before the credit crunch, "a lot of times when a CFO would ask their traditional banker about at-the-market offerings, these banks would poo poo the idea." When traditional offerings pay more, why wouldn't they?

But as the credit crisis hit, it became harder for investment banks to find investors willing to buy shares through traditional offerings. ATM offerings were the only option, and their increased use has drawn attention to them as a potential option for others that might be able to do more traditional offerings.

Wyche said the popularity of ATM offerings will continue to grow. "Most CEOs and CFOs that I talk to say that every company should have an ATM in place. Having a tool in the toolkit makes sense and then it's just a matter of whether now is the time to pull out this tool and use it or if there is another tool that makes better sense," Wyche said.

Having an ATM offering in place offers flexibility, but can also create tension with investors that don't know when they'll be diluted. "I think there is room for management teams to express up front the rationale for putting an ATM in place and to explain in what situations they might utilize the ATM," Wyche said. ■

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