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ATM Deals Grow While Registered Directs and CMPOs Stagnate

by Joe Gose

More than five years ago the Securities and Exchange Commission loosened rules on the ability of small growth companies to register shares on a shelf, triggering greater demand for registered direct deals.

The financial crisis accelerated the trend as cautious investors sought to reduce the risk associated with restricted PIPE securities. Shifting strategies, hedge funds focused on buying instantly tradable registered shares, which later became available through overnight confidentially marketed public offerings (CMPOs).

But use of the traditional registered direct vehicle and its newer CMPO variation has flattened over the last several quarters as companies have begun to increasingly gravitate toward at-the-market offerings (ATMs). The ATM structure, which also distributes registered shares from a shelf, generally provides a cheaper route to equity financing that's frequently received more kindly by the market.

Issuers have penned 106 ATM agreements that feature a total potential dollar raise of more than $20.3 billion through Aug. 28 this year, according to PlacementTracker, a service of Sagient Research. That's a 66% increase in the number of ATM deals signed over the same period last year that sought as much as $13.7 billion. It's also just five agreements shy of the total number of ATMs launched in all of 2012.

At this time in 2011, issuers had agreed to 62 ATMs with a gross potential raise of $8 billion.

Emerging growth companies (EGCs), meanwhile, have accounted for 47 of the ATMs this year with a total commitment of $2 billion versus 35 deals that sought as much as $1.8 billion a year ago. (EGCs are defined here as those companies that have a market capitalization between $10 million and $1 billion and a share price of at least $1.) In 2011 over the same period, such companies arranged 30 ATMs with a commitment of $1.2 billion.

The same growth can't be found among registered direct transactions and confidentially marketed public offerings, however. Securities sold through both structures have stagnated: This year all issuers have completed 140 registered directs and CMPOs to date compared with 139 a year ago. By this time in 2011, companies had conducted 150 registered private placement deals off of a shelf.

EGCs also have hardly moved the registered direct and CMPO needle. The 104 registered deals they've issued so far this year is only one off the pace at this same time a year ago.

ATMs have been gaining popularity over the last few years. Yet they generally have been considered just one "tool in the toolbox" of capital-raising strategies considering the fact that they dribble out shares over long periods rather than quickly raising a large lump sum of cash when needed.

Nevertheless, ATM issuers over time have pocketed substantial capital – particularly during this year's bull market – that is beginning to rival and in some cases surpass what issuers of registered PIPEs are receiving.

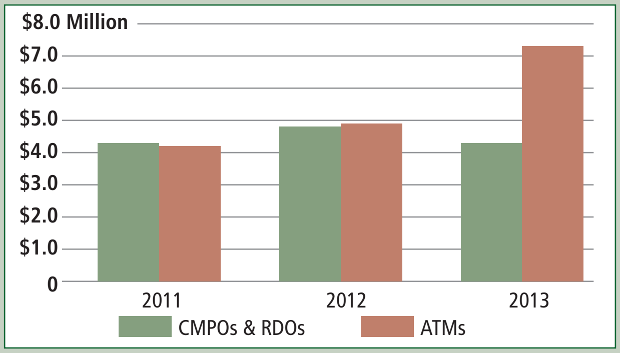
Registered direct and CMPO issuers, for example, have raised $4.3 billion to date this year for an average of $21.7 million per deal. That's down from $4.8 billion over the same period in 2012, or an average deal size of $24 million, but about on par with 2011's dollar volume and deal size.

Yet ATM issuers in the second quarter alone have banked at least $4.3 billion, according to New York-based **Brinson Patrick Securities Corp.**, an ATM investment bank that tracks the market. But that near-record amount could rise: Issuers typically disclose ATM sales in quarterly reports, and about 30 companies with ATMs have yet to file, said Todd Wyche, CEO of Brinson Patrick, which specializes in the life science sector.

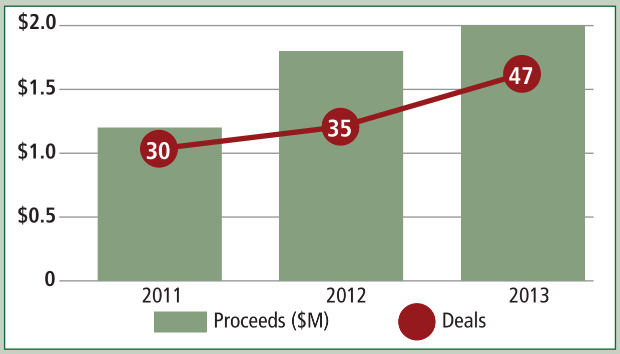
Regardless, the second quarter proceeds have already almost doubled the $2.3 billion that ATM issuers pocketed a year earlier. When fully tabulated, companies with active ATM programs will have hauled in some $7.3 billion in the first half of 2013 versus $4.9 billion in the first half of 2012.

"The total number of companies putting ATMs into place is growing every year, and the amount of capital that they're raising is also growing over time," said Wyche, whose firm is acting as a co-agent for a $50 million ATM established in March by Valencia, Calif.-based biotech firm **MannKind Corp. (MNKD)**. "The trend is in place."

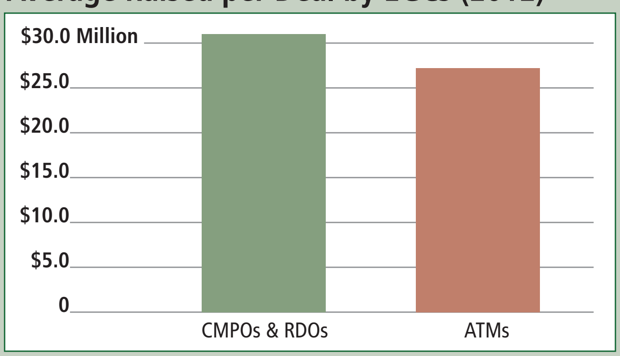
Growth Capital Raised through August in Registered EPPs



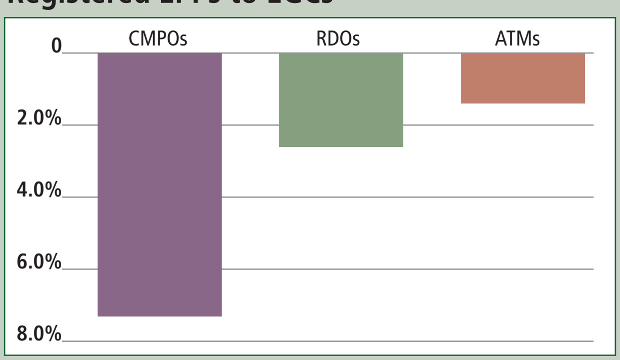
ATMs by EGCs through August



Average Raised per Deal by EGCs (2012)



3-Day Deal Performance: Registered EPPs to EGCs



Source: PlacementTracker

Increasing Averages

While Brinson Patrick follows all outstanding ATM activity, PlacementTracker matches raises with specific agreements, which can take several quarters to play out. But the data provide an idea on how much companies are raising for each ATM, which is also climbing over time.

In 56 cases, issuers have already tapped the ATMs they've established this year to raise $2.4 billion for an average of nearly $43 million per deal, for example. But issuers who have tapped 61 of the agreements set up over the same period in 2012 have raised $5 billion for an average of $83 million per ATM.

As a subset, emerging growth companies haven't shared in the same ATM prosperity, but they appear to be accelerating their use of the programs. Growth issuers that have tapped ATMs put into place this year have raised $200 million, or $9.5 million per ATM. That's well below the average deal size of $27.2 million that EGCs have raised in registered directs and CMPOs.

But emerging growth companies that established ATMs over the same period in 2012 have raised $788 million, for an average of $27.2 million. By comparison, growth companies raised an average of $31 million in registered directs and CMPOs during that time.

Still, in return for amassing cash in dribs and drabs, EGCs are avoiding many of the downsides of a full-fledged equity private placement, Wyche notes. Issuers that have established an ATM in 2013 have seen their shares drop an average of only 1.4% three days after announcement, while the shares of registered direct and CMPO sellers have declined 5.3% on average. (CMPOs fell an average of 7.3% and registered direct deals inched down an average 2.6%.)

Some of the forgiving market reaction stems from the fact that ATM issuers aren't selling shares all at once, or at a discount. Conversely, so far this year CMPO and registered direct shares have sold for an average discount of 10.3% and 7%, respectively.

Growth companies setting up ATMs are also paying bankers an average commission of 2.8%, about half the fee charged in registered deals.

Prolific Issuers

Despite his endorsement of ATMs, Wyche acknowledges that growth companies in particular sometimes need to pursue registered direct deals, CMPOs or other traditional PIPE structures to raise a chunk of capital in quick fashion. However, some growth companies have shown that they can raise large sums in a relatively short time frame through ATM programs if markets are favorable.

Burlington, Mass.-based immunotherapy developer

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Coronado Biosciences (CNDO), for example, inked a $45 million ATM agreement with investment banker **MLV & Co.** in late April. Between June 30 and Aug. 2, Coronado sold 2.2 million shares for an average price of $8.61 a share to raise more than $18.9 million. In the first six months of the year, the issuer executed a 2012 ATM with MLV to raise $42.8 million. In both cases, MLV charged a fee of 3%.

Coronado's shares slipped 2.5% from $11.73 three days after the ATM was announced in April, and it shares were recently trading around $8.15.

Likewise, Scottsdale, Ariz.-based **Healthcare Trust of America (HTA)**, a real estate investment trust that arranged a $250 million ATM with **Wells Fargo Securities** in January, raised $107.1 million in the first quarter and $20.2 million in the second quarter.

The medical building landlord's stock ticked down a fraction of a percent from $10.17 a share three days after announcement, but its ATM sales were conducted at an average price of $11.57 per share. Healthcare Trust's shares were recently trading around $10.40. Wells Fargo is charging 1.5% in fees.

Even some of the smallest emerging growth companies have been able to maximize their capital raising efforts through ATMs this year. La Jolla, Calif.-based **MediciNova (MNOV)**, a developer of therapies for asthma and other pulmonary diseases, had a market cap of $45 million when it agreed to a $6 million ATM with **Macquarie Capital** in mid-April. Its shares, which were trading at $2.54 when the deal was announced, shot up nearly 24% three days after the announcement.

Since then MediciNova has sold about 1.8 million shares for an average share price of $3.16 to raise $5.6 million. It shares were recently trading around $2.38. Macquarie Capital is collecting an 8% commission on the ATM sales. **X**

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