BB&T Corporate & Institutional

Raising 'Just in Time' Capital

Popularity of At-The-Market offering programs on the rise

Real estate investment trusts (REITs), master limited partnerships (MLPs) and utilities – organizations that traditionally have an ongoing need to raise capital – have been executing At-The-Market (ATM) stock offerings for many years. Increasingly, however, other types of organizations are embracing the flexible timing, lower costs and other benefits associated with this just-in-time financing strategy.

What is an ATM offering?

An ATM offering program – sometimes referred to as a "dribble" or "continuous equity" offering program – is an alternative to a traditional stock offering. It's a type of follow-on offering publicly traded companies use to raise capital over time on an as-and-when-needed basis.

In an ATM offering, an exchange-listed company incrementally sells newly issued shares into the trading market through a designated broker-dealer at prevailing market prices, rather than through a traditional offering of a fixed number of shares at a fixed price all at once.

The issuer can initiate or stop the sale of stock as desired, based on its liquidity and capital needs.

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Advantages over other follow-on offering options

ATM stock offerings have been a staple for organizations such as REITs, MLPs and utilities for years, providing multiple advantages over traditional underwritten offerings. These advantages include:

- **More flexibility than traditional follow-on offerings** to control the timing of stock sales, the amount of sales, the minimum acceptable price and the duration of the selling period. Importantly, companies are able to adjust issuance strategies based on positive developments in their own businesses or the overall market.
- **The ability to precisely match sources and uses of funds.** An ATM offering program allows a company to avoid swings in capital structure and/or the unnecessary dilution from prefunding an equity need. For example, a company with a history of making multiple "tuck-in" acquisitions to consolidate a fragmented market can raise the equity component of its acquisition financing around the same time the cash consideration of each acquisition is due (subject to material non-public lock-up provisions).
- **Anonymity in the market.** Sales are discreet and can be made anonymously over an electronic communications network. This promotes better pricing by eliminating market speculation about what an issuer is doing.
- **Less expensive.** The overall cost of issuance is generally significantly less than for a traditional offering. In a traditional fully marketed follow-on, where a company issues a significant amount of equity after a marketing period and roadshow, bank fees tend to be 3.0% to 5.0% of gross proceeds. For an overnight offering, the fee range is typically 2.0% to 4.5%. In contrast, bank fees for ATM offerings tend to be 1.0% to 2.0%.

  In addition, fully marketed offerings typically bear an estimated market discount of 5.0% to 10.0%, depending on the use of proceeds and market receptivity. For overnight offerings, the estimated market discount is 2.0% to 5.0%. On the other hand, a reasonably sized ATM offering program will typically experience negligible pricing discounts when filed.
- **Less time required to manage the program.** An ATM offering program can be established in a few weeks without any roadshow and with minimal additional requirements of the senior management team's time.

Eligibility considerations

So who is eligible to consider this financing strategy?

To conduct an At-The-Market offering, an issuer must be a public company, generally at the mid-cap or larger level, and must have an S-3 shelf registration filed with securities regulators.

In addition, for a program to have an impact, the company's stock must have sufficient liquidity: A practical lower limit on public float is $500 million, though some smaller companies have utilized ATMs.

Finally, in order for an ATM offering to be a reasonable option, an issuer should have a likely need for equity capital with flexible timing. For example, an ATM offering might make sense for a company that does regular small acquisitions

The Ingredients for an Outstanding ATM Execution Rotation

A mid-cap Real Estate Investment Trust (REIT) took advantage of its strong stock price in 2018 to fund near-term acquisition closings by utilizing its pre-existing ATM program with BB&T Capital Markets as the executing agent.

Excellent liquidity, an acquisitive business model and a specific near-term capital need that clarified timing made the company a good candidate for an ATM offering program. Additionally, the company had a track record of opportunistically using its ATM program when favorable market conditions presented themselves.

With an average daily trading volume exceeding $200 million, the REIT had liquidity levels well above those needed to make ATM executions meaningful to its or is engaged in a large, organic, multi-year growth project such as building a new factory.

While REITs, MLPs and utilities were some of the first organizations to establish ATM offering programs, recently many other types of companies have joined them. Some of these include business development companies (BDCs) as well as companies in the health care, biotech and specialty finance fields.

ATM offering mechanics

To launch an ATM, the issuer enters into a distribution agreement with a placement agent or agents and files a prospectus supplement with the Securities and Exchange Commission announcing the deal, followed by customary due diligence. As previously noted, the issuer determines timing of any issuance, the amount of issuance, pricing parameters and duration of the selling during open window periods.

Generally no more than 10-15% of the daily trading volume is sold each day, to prevent a materially negative move in the company's stock price. There is no obligation to execute at all, nor any program size limitation other than the maximum number of shares the issuer has authorized on its shelf registration statement and ATM prospectus supplement.

Actual executions under an ATM program may remain confidential until required disclosure in 10-Q/10-K filings.

Right for your organization?

Clearly, ATM offerings are not a financing strategy for everyone.

For one thing, many companies don't have the ongoing need for equity financing that makes an ATM offering strategy attractive.

What's more, ATM offerings are not effective for larger capital raises with an immediate use of proceeds. ATMs trade in the market during open window periods – usually between earnings releases and the last two weeks of a quarter. That averages to about 25 market days per quarter. To avoid negatively impacting the company's trading price, it's generally recommended that issuers execute no more than 15% of a day's trading volume. The practical impact of these two limitations is that if a company needs to raise a balance sheet-changing amount of capital quickly, an ATM offering may not be able to fill the need, at least not without being used in conjunction with other capital raising strategies.

On the other hand, as we pointed out earlier, for those who are eligible and have the requisite type of need, ATM programs can offer significant advantages.

BB&T is an experienced executing sales agent for ATM offerings with an in-house execution team, a responsive approach to service and a robust technology platform that rivals those of larger institutions. For more information, contact your BB&T Relationship Manager.

capital structure. In addition, the company had a specific funding need approaching in the form of multiple upcoming acquisitions, and its stock was trading near its 52-week highs.

The company has multiple agents supporting its ATM program and typically spreads execution rotations approximately equally over the course of its full ATM program. It raised more than $50 million during a single 14-day rotation in which BB&T acted as the executing agent. Stock sales during this period exceeded the volume weighted average price (VWAP)* 11 out of the 14 days at a time when the company's stock was reaching all-time highs.

Due to its elevated near-term capital need, its excellent liquidity and strong prevailing market prices, the issuer desired to execute at higher-than-typical ATM execution levels. While the rule of thumb for ATM execution is 10-15% of average daily trading volume or less, actual execution levels are ultimately determined by the issuer's priorities, adding to the flexibility ATM offering programs provide eligible issuers.

Through the ATM offering, the REIT was able to raise the capital it needed in a short time frame and at attractive price levels.

* VWAP is a benchmark for making an apples-to-apples comparison between the average execution price achieved by the agent and a comparable volume weighted market average.