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Raising Capital: Alternatives for Public Companies

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The primary advantage of going public is access to capital. After a business conducts an initial public offering (IPO), it gains the ability to tap the public markets for additional capital through follow-on offerings. Sometimes, however, a company's access to public capital is limited by unfavorable market conditions or other external factors. Under those circumstances, companies may need to consider alternative strategies to meet their capital requirements. Among the options to consider are private investment in public equity (PIPE) transactions and "at-the-market" (ATM) offerings.

Filling the PIPEline

Public companies struggling to generate interest in a follow-on offering may have better luck attracting private investors. For these companies, a PIPE transaction may enable them to meet their financing needs relatively quickly. Essentially, a PIPE is a special form of private placement — exempt from registration under the Securities Act's Regulation D or another exemption — offered to a select group of institutional and other accredited investors.

PIPEs' advantages include:

- The ability to raise capital quickly,
- Minimal regulatory and documentation requirements,
- Lower transaction costs than public offerings,
- Confidentiality (which reduces downward pressure on a company's stock price), and
- The ability to sell a fixed number of shares at a fixed price, which isn't subject to market fluctuations.

Although PIPE investors initially purchase restricted shares, it's customary for the public company to agree to file a resale registration statement allowing investors to resell the shares to the public. This allows the company to raise capital from institutional investors that otherwise wouldn't purchase restricted shares.

The main disadvantage of PIPEs is that companies need to offer purchasers a discount to reflect initial resale restrictions on the shares. Also, investors may receive warrants to purchase additional securities, which can result in dilution of the company's shares. And regulations place limits on the amount of capital a company can raise without obtaining shareholder approval.

Going to the ATM

An ATM is a form of registered follow-on offering, rather than a private placement. The company sells listed securities directly to the public markets (through a broker-dealer or other sales agent) over time, usually in small amounts.

ATM offerings provide several important benefits. Securities are sold at undiscounted market prices and, because a relatively small number of shares are sold at any given time, the dilutive impact is minimized. Also, companies retain control over the timing and size of securities sales, allowing them to sell securities when prices are high and forgo sales when market conditions are less favorable. Generally, the costs associated with ATM transactions are lower than those associated with PIPEs and other private placements.

The primary disadvantage of ATM transactions is that, because securities are "dribbled out" into the market, they're not an effective solution for companies with more substantial or immediate capital needs. For those companies, a PIPE may be more suitable, despite discounted prices and potential dilution.

Explore your options

These are just two of the many alternatives available to public companies seeking capital. Other options include private placements, registered direct offerings, and mergers and acquisitions. Work with your advisors to identify financing strategies that are appropriate in light of your financial circumstances and capital needs.

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