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Reverse Merger Helps Ocera Therapeutics to Move Forward

BIOTECH: A Private Placement Also Adds $20M to Firm's Funding

By **MEGHANA KESHAVAN** Monday, August 5, 2013

Stock prices initially fluctuated for San Diego's Ocera Therapeutics Inc. ever since its unusual reverse merger with Research Triangle Park, N.C.-based Tranzyme Pharma Inc. The combined company is public and began trading on the Nasdaq Global Market under the symbol OCRX on July 16.

Initially opening at $6.23 per share, in a matter of weeks the company's stock shot up at one point to $17.20 before settling in the $8 to $10 range.

"The stock price has been pretty volatile since we announced the merger — it went way up and has been settling back down, which is not too surprising since the market in general is pretty heated right now," Ocera CEO Linda Grais said.

After the merger, the company has 11.3 million shares outstanding, leaving Ocera with a market capitalization of about $107 million as of August 1.

"Small trades have a big impact on our stock price, and I think that's a big part of the reason for the market volatility," she said. "But we're happy with where the stock and market cap is settling out right now."

Ocera Inc. was a privately held biopharmaceutical company founded in 2005, launched by Eckard Weber, a partner with San Diego-based venture capital firm Domain Associates.

Cost Effective Move

The company was able to bypass the traditional initial public offering process through what's called a reverse triangular merger with Tranzyme, said Deborah Gunny, an attorney with global law firm Reed Smith LLP who helped complete the merge.

Ocera essentially merged into a subsidiary of Tranzyme, after which Tranzyme changed its name to Ocera Therapeutics — making the combined business a larger public company. The reverse merger process was viewed as being faster and more cost effective than an IPO, Gunny said.

"In today's market environment, having a public entity is attractive," Gunny said. "There's activity now in the public market for biotech, and the IPO window is opening up. This was an opportunity with a Nasdaq-listed public company that represented an attractive opportunity."

Gunny said that, further, there's been a lot of interest in the market for orphan drug companies.

"That's one of the reasons there's been such interest post-merger in this company — it presented a great opportunity for people to get in early," Gunny said.

Treating Liver Disorders

The combined company, Ocera Therapeutics, will focus on developing new treatments for patients with rare liver disorders associated with cirrhosis. The company's lead drug candidate treats a condition called hepatic encephalopathy, which hinders brain function and can cause patients to enter comas as a result of liver disease.

To date, Ocera has received about $85 million from several life sciences investors, including Thomas McNerney & Partners, Sofinnova Ventures and Montagu Newhall Associates.

Fast Track Status

Ocera's drug has received an orphan drug designation and has received fast track status from the U.S. Food and Drug Administration, which could hasten its entry to the market. Ocera, a clinical-stage company, will soon begin a 200-person trial that should be complete by late 2014 or early 2015, Grais said.

On July 15, the day before the combined company went public, shares for Tranzyme were trading on the OTC market at 42 cents per share. Ocera targeted Tranzyme as a potential merger target because it had a strong clinical development team, Grais said, and it was a company that was in search of a merge.

"Tranzyme has also been developing drugs in a similar area that we have, but their drug failed last fall in Phase 3 clinical trials," Grais said. "They were looking for a new asset to work on, and they were very interested in our drug."

Private Placement

Immediately following the closing of the merger with Tranzyme, certain Ocera investors, including Domain Associates, Thomas McNerney & Partners, Sofinnova Ventures, InterWest Partners, Greenspring Associates, Agechem, CDIB and Wasatch Advisors, invested approximately $20 million in the company through a private placement financing.

Grais attributes the dramatic swings in stock price to the fact that Ocera has a relatively small public float in the stock. It's still closely held by the Ocera investors — about 80 percent of the stock is in the hands of the original investors, she said.

Menlo Park-based technology and life sciences investment firm Sofinnova Ventures, one of the company's original investors, holds about 11 percent of the stock. Domain owns about 16 percent, and InterWest Partners holds about 7.3 percent. The rest is distributed among the other investors in the company.