

As Forte fails, who might yet improve the image of reverse mergers?



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Among developers that arrived on the market via reverse mergers, big success stories are hard to find.

The cynical view of reverse mergers – takeovers of failed groups that have little more to offer than their market listing – is that they provide weak private companies a back door to the stock exchange. A quick scan of the biopharma groups that listed this way certainly reveals more disappointments than success stories.

Forte Biosciences, which reversed into [Tocagen last year after that group's collapse](#), is the latest to join this sorry group. The misfire of its lead atopic dermatitis project last week prompted an 83% share price collapse. With only \$51m in the bank perhaps Forte's short public existence will end the way it began, with the company becoming a reverse merger target itself.

FB-401, a combination of three strains of a bacterium called *Roseomonas mucosa*, failed to beat placebo in [a phase 2 trial](#), the developer said last week. As a one-asset company with limited cash such a setback was bound to be punished harshly, and it is hard to see how Forte can recover. This is a classic setup for reverse merger, and brings to mind other collapses in the past couple of years.

These include Aerpio, a company that was heavily focused on a project called AKB-9778 that failed in a number of settings; Millendo, [whose pursuit of a treatment for insatiable hunger could not be gratified](#); and Proteostatis, [a wannabe cystic fibrosis player that could not catch Vertex](#). These companies respectively ended up as listed shells for Aadi, Tempest Therapeutics and [Yumanity](#).

And let us not forget Sunesis, which [after more than a decade of trying to prove itself as an oncology player](#) and with at least two clinical disappointments under its belt, finally threw in the towel last year and agreed to be bought by Viracta.

The circle of life?

Why companies like Viracta and Yumanity chose to come to market via reverse merger rather than traditional IPO is an important consideration for investors. The same question applies to [firms that list via Spac](#), of course, another alternative option that has seen a boom in the past 18 months.

The reasons most frequently cited are that these routes are faster and cheaper, something that might be true for the reverse merger option. But suspicions linger that these mechanisms tend to be used by companies that would struggle to attract enough support for, and to jump through the necessary regulatory hoops involved in,

a full-blown flotation.

This perception is not helped by the fact that it is easy to find examples of companies that arrived via reverse merger and then went nowhere. Histogen, for example, [reversed into the failed Nash player Conatus in 2020](#) and is now trading barely above cash. Millendo, mentioned previously, had reversed into Ovascience to gain a listing two years before its own demise.

There are flickers of hope. The list below highlights some developers that have listed via this mechanism since 2016 and still sport respectable market caps; these will no doubt be hoping to be the exceptions to the tainted reverse merger rule. Two are admittedly very recent arrivals, making it early to judge. Another three have benefited from pursuing Covid-19 projects, which look unlikely to deliver anything aside from a valuation bump.

The hope has to be that from the ashes of clinical disaster new life can emerge. But the dearth of clear success stories shows why some investors remain wary.

Bucking the trend? Developers that arrived via reverse merger with >\$500m market cap (as of Sep 2021)

Company	Current market cap	Focus	Reverse merger target (year of deal)
Rocket Pharmaceuticals	\$2.3bn	Gene therapies for rare childhood diseases	Inotek (2017)
Ocugen	\$1.5bn	Ocular gene therapies & partner on Covaxin Covid-19 vaccine	Histogenics (2019)
Madrigal	\$1.4bn	Nash	Synta (2016)
Vaxart	\$1.1bn	Oral vaccine technology incl ph1 Covid-19 project	Aviragen (2017)
Arcturus	\$1.5bn	mRNA platform incl ph1 Covid-19 project	Alcobra (2017)
Amryt	\$710m	Rare diseases	Fastnet (2016)*
Altimune	\$638m	Obesity and liver diseases (ph1 Covid-19 project recently failed)	Pharmathene (2017)
Albireo	\$600m	Rare diseases (Astrazeneca spinout)	Biodel (2016)
Brooklyn Immunotherapeutics	\$614m	Oncology (cytokines/mRNA)	NTM Buzztime (2021)*
Aadi	\$568m	Oncology (targeted small molecules)	Aerpio (2021)
Kalvista Pharmaceuticals	\$510m	Rare diseases	Carbylan Therapeutics (2016)

*Note: all US listed, except Amryt in London. *Non-biopharma reverse merger target. Source: Evaluate Pharma.*

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