

A pyrrhic victory for Ocata investors



Jacob Plieth

At first glance, given its 90% premium, this week's takeout of Ocata Therapeutics by Astellas looks impressive. Take a closer look, however, and a different story emerges: that of a sorry end for a company that had generated no commercial successes despite being at the forefront of stem cell research for some 20 years.

Indeed, at a time when advanced technologies are all the rage, Ocata's takeout valuation of \$379m looks undemanding. Notwithstanding a name change, 100-for-one share consolidation and change of focus, Ocata stock had lost 98% of its value over the past decade.

Ocata started life as Advanced Cell Technology, focusing on the use of stem cells in cloning, and gained a stock market listing through a reverse takeover in 2005. But it became embroiled in controversy not only over its cloning technology but also for the stock market activities of its then chief executive, William Caldwell.

The now deceased Mr Caldwell undertook the sale of penny stocks that had not been registered with the SEC, leading to a [legal action](#). Meanwhile, as Advanced's shares slid below \$1 a plan was hatched to consolidate the stock to gain Nasdaq compliance, narrow the company's focus and change its name to Ocata.

But none of this could detract from the group's lack of clinical progress – at present it has one project, a retinal pigment epithelium (RPE) cell therapy, in two clinical trials. Over the past five years alone it has run up net losses of \$216m, while still being able to pay a dividend on preferred stock.

Ophthalmology

Ocata management can probably praise itself for having turned its focus to ophthalmology as a reason for attracting Astellas to the deal table. This is a lucrative therapy area, as shown by the recent dry eye disease deal between Allergan and Mimetogen, and clinical success of Shire's lifitegrast in the same condition.

The Ocata cell therapy, MA09-hRPE, is in clinical trials for dry age-related macular degeneration and Stargardt's disease, a common form of inherited juvenile macular degeneration leading to progressive vision loss.

Ocata's technology is based on the generation of RPE cells from pluripotent stem cells derived from human embryos. The hope is that a single and scalable allogeneic source of RPE cells, which can be manufactured in culture, might suffice for millions of patients, though the use of human embryos is fraught with ethical issues as well with questions over patentability.

Indeed, while ophthalmology is continuing to attract interest, the same cannot be said of companies involved in stem cell research. Groups such as StemCells, Neuralstem and TiGenix have micro-cap valuations, while Geron has pulled out of this field altogether, and Neostem has suffered a share price slump and changed its name to Caladrius.

It is notable that Ocata failed to attract interest from any US companies. Still, with western pariahs like Astex, Arena and Orexigen earlier finding willing deal partners in Japan, Ocata shows that this option remains open.

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