

Gastric balloon groups float via different means



[Elizabeth Cairns](#)

Another gastric balloon has gained US approval as an obesity therapy, and its developer has made the decision to raise money for the launch via an IPO. Obalon Therapeutics has registered for a \$75m float on Nasdaq, and if this goes ahead it will only be the seventh medtech IPO so far this year.

Perhaps the downturn in the IPO market explains why a rival gastric balloon company intends to take a different route to the public exchanges. Apollo Endosurgery is to reverse into Lpath, a Nasdaq-listed biotech group that crashed badly in May after a trial failure.

Obalon's balloon, also called Obalon, will become the third such device to gain US approval – Apollo's has been available for a year or so. But Obalon is the first that does not require an implantation procedure.

Instead, the patient swallows it in capsule form. Once it reaches the stomach it inflates with gas, helping patients feel full and causing them to eat less. Over the next three months of treatment two additional balloons are swallowed and inflated, and six months after the placement of the first, all three balloons are removed via an endoscopic procedure.

Another swallowed gastric balloon is approved in Europe, but this one has yet to reach the US ([Swallowed gastric balloon approved in Europe, but can Elipse eclipse its rivals?](#), December 11, 2015).

Obalon intends to launch the balloon with a direct sales force in early 2017, initially by offering it on a self-pay basis to bariatric surgeons and gastroenterologists with existing weight loss practices. The company does not have a great deal of choice: gastric balloons are not reimbursed by many insurers or under Medicare, which states that their long-term safety and efficacy is unproven.

Despite this lack of reimbursement Obalon apparently believes it can hook investors – unless the IPO filing is an attempt to flush out potential acquirers. But the recent trend has been that acquirers prefer the devices sold by their target companies to be reimbursed, so it is hard to see why they should buy either.

Reverse

In that light, Apollo's approach has its appeal. It will acquire Lpath in a deal that will see Lpath issue new shares, or rights to acquire common stock, to Apollo security holders, who will come to hold 95.8% of the combined company.

At close, expected by year end, Apollo's major investors – including PTV Healthcare Capital, H.I.G. BioHealth Partners, Remeditex Ventures, Novo A/S, and CPMG Inc – have committed to invest around \$29m of new equity in the combined company, which will form part of the Apollo 95.8% ownership. Lpath currently has a market cap of around \$6.6m.

After the deal has concluded Lpath will change its name to Apollo Endosurgery, and the new group will list on Nasdaq under a new ticker. Directors, executives and board members will all either come from or be designated by Apollo.

Apollo's gastric balloon, bought from Allergan in 2013, is not reimbursed in the US either. But the company has an obesity technology that is paid for: the Lap-Band gastric band, also acquired from Allergan.

And now it has Lpath's portfolio of monoclonal antibodies too. The most advanced of these, lpathomab, inhibits lysophosphatidic acid and is in phase I trials for neuropathic pain and traumatic brain injury.

It seems reasonable that obtaining a pipeline of drugs to treat CNS disorders – a pipeline thinned last year by two phase II failures, Asonop in renal cell carcinoma and Isonop in wet age-related macular degeneration – was not why Apollo is buying Lpath. Instead the deal looks like, to quote Apollo's chief executive, an "expedient" way onto the public markets.

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