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TH.TO - Full Year 2017 Theratechnologies Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2018 / 1:30PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Theratechnologies' Earnings Conference Call for Fiscal Year 2017. (Operator Instructions) I would like to remind everyone that this conference call is being recorded today, Wednesday, February 7, 2018, at 8:30 a.m. Eastern Time.

And I would now like to turn the conference over to Denis Boucher. Mr. Boucher, please go ahead.

Denis Boucher - *Theratechnologies Inc. - VP of Communications & Corporate Affairs*

Well, thank you, and welcome. Luc Tanguay, President and Chief Executive Officer of Theratechnologies; and Philippe Dubuc, Senior Vice President and Chief Financial Officer, will be the speakers on today's call. A Q&A period open exclusively to financial analysts will follow his presentation.

Before Luc begins his remarks, I've been asked by Theratechnologies to read the following message regarding forward-looking statements. I would like to remind everyone that Theratechnologies' remarks today contain forward-looking statements about its current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or other future events or developments. In preparing these forward-looking statements, several assumptions were made by Theratechnologies, and there are risks that results actually obtained by the company will differ materially from those statements. As a consequence, the company cannot guarantee that any forward-looking statement will materialize and you are cautioned not to place undue reliance on them. Theratechnologies refers current and potential investors to the forward-looking information section of its press release issued this morning and to its Annual Information Form dated February 6, 2018, and the Risk Factors section therein available at www.sedar.com under Theratechnologies' public filings. Forward-looking statements represent Theratechnologies' expectations as of February 7, 2018, except as may be required by securities laws, Theratechnologies does not undertake any obligation to update any forward-looking statement whether as a result of new information, future events or otherwise.

I would now like to turn the conference over to Luc Tanguay.

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Thank you, Denis. Good morning, everyone, and thank you for being with us today for the presentation of our annual results. We are quite satisfied with the way 2017 unfolded and where our company is today as well as where it is heading in 2018. We are now on the verge of seeing the fruits of almost 2 years of hard work and commitment with the expected decision on Trogarzo in the coming weeks.

Our 2017 revenues and EBITDA reflect the investments made to be ready to successfully launch Trogarzo upon receiving regulatory clearance from the FDA. One of the important moves that we made was to expand our sales team, which has been fully deployed for the last 6 months of our fiscal year. This was required to start building a relationship with almost 5,000 key prescribing physicians in the U.S. in light of the anticipated launch of Trogarzo. We also knew that it will give us a springboard to grow EGRIFTA sales.

Indeed, this is what happened. For the last 3 consecutive quarters, we experienced continued growth. Moreover, our sales for the fiscal year increased by 16% compared to 2016, despite a nonfavorable exchange rate and the fact that our expanded sales force was in place only for the last 6 months of 2017. As we look at our number for '17, we can definitely see the impact our expanded sales force has had and will continue to have. In fact, our last 2 quarters were the best ever since regaining rights to our product in 2014.

Q4 unit sales grew by 23% compared to Q4 of last year. Of course, our sales force will get busier than ever once they start [detailing] Trogarzo to key physicians in the U.S. Before then, they will continue building their network and relationships as they have done for the last 8 months. Around approval, we'll host national sales meeting, during which they will receive a thorough training on Trogarzo. We will also begin accepting prescription and working with patient on the reimbursement. We expect that about 6 week after FDA approval, Trogarzo will be commercially available to patients with multidrug resistant HIV-1. We will also transition patient from the Expanded Access Program.

Of course, as I mentioned before, it's important to remember that reimbursement is going to be a central piece of building this brand. We expect that we will gradually secure reimbursement over a period of 6 months after approval. Thus, we expect that Trogarzo sales will gain momentum as reimbursement becomes more and more available. This is why we have spared no effort in the last year to prepare our strategy and to ensure that we will start filing for formulary inclusion on private and public payers lists as soon as we receive FDA approval.

In addition, we have significantly progressed on the European front. We have created a subsidiary in Ireland. We have also been recognized as a small and medium enterprise, or SME, by the European Medicines Agency. Such status is quite advantageous as we can benefit from support and guidance from the EMA. Much of the EMA filings fees are also heavily discounted for SMEs. We have also hired external resources to start devising and implementing our regulatory and pricing strategy in what will be the second most important market for Trogarzo in the world. We expect the technical meetings with the rapporteur and co-rapporteur countries, namely The Netherlands and Italy, will happen in Q2.

We also hired consultants to assist us in establishing the appropriate corporate structure in Europe. As we anticipated, the investments we made in 2017 to prepare for the launch of Trogarzo in the U.S. had an impact on our financial results. Furthermore, we accelerated our preparatory work in the European market. As Philippe will discuss in more details in a moment, investment made toward the commercialization of Trogarzo in Europe is the main reason why we ended the year with a negative EBITDA slightly above our guidance of $5 million to $5.5 million. In terms of sales, we ended the year within our guidance and our financial position is as strong as it has ever been.

Without any kind of experience and track record with Trogarzo and knowing that it will have a significant impact on our company's profile, you will understand that it would be premature to provide formal guidance for the coming year. Nevertheless, as far as EGRIFTA is concerned, we aim to have a sales growth of 10% to 15% this year. Once we have a decision and clearer picture in terms of reimbursement and market acceptance for Trogarzo in the U.S., we will certainly be better equipped to give you more complete guidance.

With that said, let me turn to Philippe, who will give you both our quarterly and annual results and I'll come back after for closing remarks. Philippe?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

Thank you, Luc, and good morning, everyone. As Luc just mentioned, we have to look at our numbers by keeping in mind that we made important investments that will provide unprecedented leverage to our company. Wasn't it for those investments, our EBITDA would certainly have been even better than last year. But given the tremendous potential of Trogarzo, we have every reason to conclude that we took the right decision.

First of all, EGRIFTA sales keep going up. This was our best year ever. Q4 was also our best quarter ever, and may I remind you that this was also true of our third quarter. I'm also happy to report that sales thus far in Q1 continue on an upward trend compared to Q1 of last year.

In 2017, we recorded net sales revenue of almost 43 million, which represents a 16% increase over 2016 in Canadian dollars and 18% when reported in U.S. dollars. Of course, as I just mentioned, this performance was offset by the investments we made to be ready for the launch of Trogarzo in the U.S. and the accelerated implementation of our European strategy for Trogarzo. This is why we ended the year with a negative EBITDA of $6.9 million in 2017 as opposed to a positive EBITDA of $6.6 million in 2016. Of course, this takes into account royalties paid to EMD Serono in the amount of close to $4 million in 2017 compared to slightly over $2.4 million in 2016. We anticipate a blended royalty rate in the low teens for 2018.

Higher sales mean -- also mean higher cost of goods. They amounted to almost 5 million in 2017 compared to 4.3 million in 2016, but remain stable in terms of net sales, standing at 11.6%. Selling and market development expenses is where most of our investment in the Trogarzo launch can be found. Not surprisingly, this budget item grew to 26 million in 2017 from 14.7 million in 2016. These amounts include approximately $2 million in noncash amortization associated repurchase of the EGRIFTA rights.

R&D expenses also included additional investments in light of the Trogarzo launch. Among others, it includes additional resources in our medical science liaison team. Expenses made towards the development of the F4 formulation of EGRIFTA also include -- are also included in R&D. As a result, we recorded R&D expenses of approximately 11.9 million in 2017 compared to close to 7 million in 2016. G&A expenses were $5.8 million in 2017 compared to $4.9 million last year which is a direct consequence of our growth.

As for finance costs for the 12 months ended November 30, 2017, they came to $7.7 million compared to $3 million in fiscal 2016. Finance costs in fiscal 2017 reflect the loss of 6.7 million related to the fair value of the warrant liability as a result of our strong stock market performance compares to a loss of $1 million in fiscal 2016. As a reminder, virtually all warrants were exercised upon expiry and as such this line item will no longer appear going forward. Accretion expense on the long-term obligation was 1.4 million in 2017 compared to 1.9 million in fiscal 2016, reflecting the lower average balance outstanding during the year. These noncash items, along with additional investments made for the launch of Trogarzo and royalties of close to $4 million to EMD Serono led to a $18.5 million loss or 0.25 per share in 2017. This compares to a profit of $410,000 or 0.01 per share in 2016.

Looking at our numbers on a quarterly basis, I am pleased to report that we just had our best quarter ever. Q4 2017 revenues stood at $12.6 million in comparison to $10.4 million in Q4 of last year or an increase of 21% in Canadian dollars but of 28% when looking at sales in U.S. dollars. Unit sales to our distributor, RxCrossroads, were up 23% compared to the same quarter of 2016. Cost of sales in Q4 2017 was also up and reached $3.5 million compared to close to $2 million for the same quarter last year. Cost of sales include $1.1 million in royalties to EMD Serono and 1 million in various production related costs.

R&D expenses grew to approximately 3.1 million in Q4 2017 compared to 1.2 million in Q4 2016. As I explained earlier, R&D expenses include additional resources related to medical affairs activities in the United States, regulatory costs associated to our European activities for Trogarzo as well as expenses related to the development of the F4 formulation of EGRIFTA.

For the 3-month period ended November 30, 2017, selling and market development expenses came to almost 8 million compared to about 3.8 million for the same period last year. The increase can mostly be attributed to the preparation for the launch of Trogarzo as well as increased expenditures for Europe. G&A expenses grew to -- close to $1.6 million in Q4, slightly more than the 1.4 million during the last quarter of 2016.

In Q4 2017, we recorded $713,000 in finance costs compared to $1.3 million in Q4 of last year. Figures from 2016 reflect an $805,000 loss related to the valuation of warrant liability. The adjusted EBITDA for Q4 2017 was negative $1.9 million compared to a positive EBITDA of $2.8 million for the same quarter in 2016.

Finally, operating activities generated approximately $2 million of cash in Q4 2017 in comparison to $2.7 million in Q4 2016, mainly due to changes in working capital. You will remember that we completed an offering of common shares, which generated about $15 million in net proceeds. And the company also received cash proceeds of 8 million from the exercise of common share purchase warrants, broker options, broker warrants and stock options. This allowed us to end the year with almost $33 million in cash and cash equivalents on our balance sheet.

On this, I will now turn it to Luc for his closing remarks.

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Thank you, Philippe. Some of you will remember that we held an Analyst Briefing Day on March 1 of last year. At the time, we explained our game plan for 2017. Our strategy was based on growing EGRIFTA sales, support our partner TaiMed toward the approval of Trogarzo in the U.S. and invest in building the proper structure to be ready to successfully launch this life-saving drug in the most important market in the world.

Looking back, I can see today that we have met our goals and that our plan was implemented methodically and that we are now ready to make Trogarzo a success in the U.S. The only thing that we did not plan in '17 was how far and fast we would have advanced the European file. This is certainly not something anyone will complain about. We are now at the doorstep of a new era in our company, and we made it there while keeping a solid cash position. Soon, patient in the U.S. should have access to the first HIV treatment with a new mechanism of action to be approved in 10 year. This drug is going to make a difference for thousands of people with multidrug resistant HIV-1 and it will be a defined milestone in our company's history when we see the first sales being recorded.

So we look forward to speaking with you again upon receiving the decision from the FDA. And thank you for being on the call today. And we'll now take questions from financial analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Prakash Gowd with CIBC.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Just a few questions on Trogarzo. First of all, can you talk a little bit about TaiMed's contact with the FDA since the PDUFA date was delayed and some of the nature of those interactions?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Yes. TaiMed, in fact, since the PDUFA date was delayed by 3 months, TaiMed has responded to all questions and information required by the FDA. And at this point, we are on the waiting month from feedback from the FDA. Everything is in their hand now.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. Was there any request for a manufacturing reinspection?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

No, not at all.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And to the best of your knowledge, have they built inventory of Trogarzo?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Yes, they have inventory that will be sent to the U.S. as soon as it is approved and we already have inventory in North America.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. And then at what stage would the labeling discussions be at now?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

As I said, everything is in the hand of the FDA and we haven't received any more questions for many, many weeks at this point.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. Just to clarify on the revenue recognition for Trogarzo when it's approved, would you recognize it when RxCrossroads ships to pharmacies or at another time?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

It's like EGRIFTA, Prakash. When we -- we recognize the revenue when we are selling to RxCrossroads which is our only client in the U.S. So they are placing order every week and usually they don't have many months of inventory. It fluctuates a bit but they have a few weeks of inventory.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay, perfect. And has your national sales meeting been scheduled already?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

It's a moving target as we speak. As soon as we'll have the decision from the FDA we'll choose a date. But it's going to be very soon after the decision. Everything is ready. In fact, we were ready to do it, but you understand that we want to do it with the good news.

Prakash Gowd - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Sure. Right. Last question, I'll get back in queue. What is the updated range of pricing that you're now considering?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

As I mentioned the last time, will be definitely over the Fuzeon price which is 50,000 a year, but we definitely want to be under the average price of orphan drugs in the U.S. which is USD 140,000. So we'll be below that price.

Operator

Your next question comes from Andre Uddin with Mackie Research Capital.

Andre Uddin - *Mackie Research Capital Corporation, Research Division - MD of Healthcare Research*

I just have a quick question here just in terms of were there any increases in EGRIFTA selling price this quarter? And does the 10% to 15% increase in sales -- in your sales forecast, does that include any price increases?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Do you want to answer, Philippe?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

Yes, we increased the price in September of 2017 and we don't plan to increase it before the same period of 2018.

Andre Uddin - *Mackie Research Capital Corporation, Research Division - MD of Healthcare Research*

Okay. And in terms of -- based on your ongoing market research, if you look at the key prescribers of Fuzeon, how do you envision a switch to Trogarzo would proceed?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

We don't really have a lot of insight into Fuzeon prescriptions. We think there's maybe 300 to 400 patients. So we can't really find them. It's not really the way that we're approaching our targeting.

Operator

(Operator Instructions) Your next question comes from Jenny Wang with Canaccord Genuity.

Jenny Wang - *Canaccord Genuity Limited, Research Division - Associate of Healthcare*

I have a couple of questions. The first one would be are you guys looking at any other assets? And how far outside the HIV space would you consider going?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Yes, it's on our game plan to look at possible other commercialized product to add to our sales force. So we mentioned that few times in the past and it's still on our game plan. So we think there are still some asset available. But of course, what we're looking at this point is will not be product as significant in terms of sales than we're thinking for Trogarzo. It's just to complete or optimize, if you will, our sales force team in the U.S. -- optimize our portfolio.

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

And for the moment, we don't have any plans to go out of HIV.

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

Yes, exactly.

Jenny Wang - *Canaccord Genuity Limited, Research Division - Associate of Healthcare*

Okay. And another question would be for the quarter, what contributed to your higher G&A? And how long do you expect to be spending at an elevated level in preparation for the launch?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

So the G&A was actually not quite different from last year, but it's probably on the SG&A. The selling expenses are pretty much what we'll see going forward. If you take Q4 it's quite representative of the organization that we have in place. And it's pretty much the organization that we need to bring Trogarzo to peak sales.

Jenny Wang - *Canaccord Genuity Limited, Research Division - Associate of Healthcare*

Okay. And for your European strategy, last question, are you going to pursue an approval through a centralized process from the EMA? Or are you looking at more decentralized from individual countries?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

No, we are going with the centralized filing. And if you recall in my speech I mentioned that we already have been designated our rapporteur and co-rapporteur which is Netherland and Italy. So we're going with central filing.

Operator

Your next question comes from Endri Leno with National Bank.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

I just have a quick one, Luc. Will you be able to provide any guidance as to what you expect costs will be associated with European preparations for 2018?

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

In fact, we don't provide any guidance except that we think that EGRIFTA sales will -- we are aiming a growth of 10% to 15%. In term of spending, as Philippe mentioned, we're pretty much at the proper level and budget should be quite -- in terms of spending should be quite similar to what we had in the fourth quarter.

Endri Leno - *National Bank Financial, Inc., Research Division - Associate*

Okay. But for EU as well, right? I mean, approximately I think maybe $1 million or so you had in Q4 for the EU launch. Would you expect proportionally higher for 2018 perhaps?

Philippe Dubuc - *Theratechnologies Inc. - Senior VP & CFO*

It's probably a little more than that in Q4, and it will be a little higher than that in 2018. But we're not -- we're still mostly dealing with consultants. We're not ready to have a full organization in Europe. So 2018 should be quite similar as 2017.

Luc Tanguay - *Theratechnologies Inc. - CEO, President and Non-Independent Director*

And in fact, Endri, if we -- we're going to have our technical meeting in Q2. And if we're ready to file the submission in this year and we see that the approval could be not that far, we might have accelerate spending. But at that time, we will of course mention that to you all and it's going to be probably very good news that we can accelerate our implementation in Europe.

Operator

There are no further questions at this time. I turn the call back to Denis Boucher.

Denis Boucher - *Theratechnologies Inc. - VP of Communications & Corporate Affairs*

Well, thank you. As there are no further questions at this time, we will conclude today's earnings conference call. On behalf of everyone here at Theratechnologies, let me thank you for being on the call today. Have a great day.

Operator

This does conclude today's conference call. You may now disconnect.